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ANNUAL REPORT 2019



Annual Report 2019

光群雷射科技股份有限公司
K LASER TECHNOLOGY INC.



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K LASER TECHNOLOGY INC.

光群雷射科技股份有限公司
K LASER TECHNOLOGY INC.

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To Shareholders

Summary

The consolidated sales of K Laser Group in 2019 was 5.2 billion NT dollars which was about the same as previous year. The annual gross profit margin was 23%, and the operating profit was 31 million NT dollars. Compared to 2018, the annual gross profit margin of 2019 rose 2% but the operating profit decreased by 82%. Net loss of 2019 was 119.84 million NT dollars, resulting in 0.79 loss per share.

Despite the fact that the total revenue of 2019 was at the same level as 2018, the hologram business had actually made 3% more sales revenues and 10% more gross profit over previous year, thanks to increasing sales of high-margin products and successful acquisition of new customers. However, the 170 million NT dollars write-off of AR and inventory valuation losses from Everest Display had greatly impaired the consolidated operating profit. In addition, we had recognized 100 million NT dollars investment loss from Everest Display and finally the bottom line became negative.

Technology Development

Over the years, we have kept on improving our true-seamless process to reduce the cost of standard products. We have also facilitated the following steps to drive customer stickiness, and ultimately elevate our overall profit margin.

1. We have dedicated ourselves to improve our design and origination capabilities. By altering design, production process, and materials, we have created various unique products with security functions for customers to achieve desired outcome.
2. We have directed our research and development efforts in response to downstream operations to create products that are eco-friendly, resistant to high temperature and humidity, and have high abrasion and folding endurance.
3. We have invested in advanced origination equipment and looked into incorporating more security technologies to ensure our competitiveness in the security label market.

Our Strategy and Global Situation

There are several market trends that are leading the development of products. First of all, to reduce plastic waste by means of reuse and recycling, and to encourage uses of sustainable materials are established policies in many countries and have been stipulated in the EU Directive. As a result, one of our priorities is to develop environment-friendly materials to deliver products that enable our customers to make eco-friendly product packaging. Secondly, digital printing is making short and variable runs possible, and therefore offering commercial packaging and printed matter chances of customization. To that end, building professional and remarkable design capability and offering fast service will help us stand out in competition. Thirdly, security label users are no longer satisfied with single effect, and are looking for more complicated products that merge multiple security features. The change of appetite in security labels is not only a challenge but at the same time a great opportunity for us to demonstrate our ability to develop and integrate technologies.

In terms of global situation, the COVID-19 pandemic has greatly impacted us on every front from disrupting global supply chains and business activities to dramatically decreasing consumption. Even though governments have implemented economic relief plans to support individuals and businesses, we believe that all business activities will not go back to their original level until a vaccine and treatment are ready. To top that off, the collapse of oil prices and oil demand is adding noises to the financial market and stress to liquidity. We are very concerned that continuing virus infections and oil market turmoil will push up the unemployment rates worldwide and start wider chain reactions across the broader economy. In response to those problems, we have started a cost reduction plan and A/R and inventory control plans to reduce potential risks and increase our cash position. No matter how the

environment changes, we always remind ourselves to focus on the core business and strengthen our competitiveness to provide value to shareholders.

Finally, we would like to express our gratitude to our shareholders for your supports and our employees for their efforts. We will keep the great spirit of teamwork and continue to lead K Laser successfully in the future.

Sincerely,

Alex Kuo
Chairman

A handwritten signature in black ink, appearing to be 'Alex Kuo', written vertically.

Corporate Overview

Corporate Profile

Established in April 29,1988, K Laser Technology Inc. has been a pioneer in optical hologram origination, hologram embossing and the material deposition process.

Specializing in holographic and Fresnel lens technologies, K Laser currently has 8 manufacturing sites and 11 sales offices worldwide.

K Laser is a major supplier of lamination film, transfer film, hot stamping foil, cold foil, laminated paper, and eco-paper. Product applications include packaging, label, decoration, security and many more.



Major Milestones

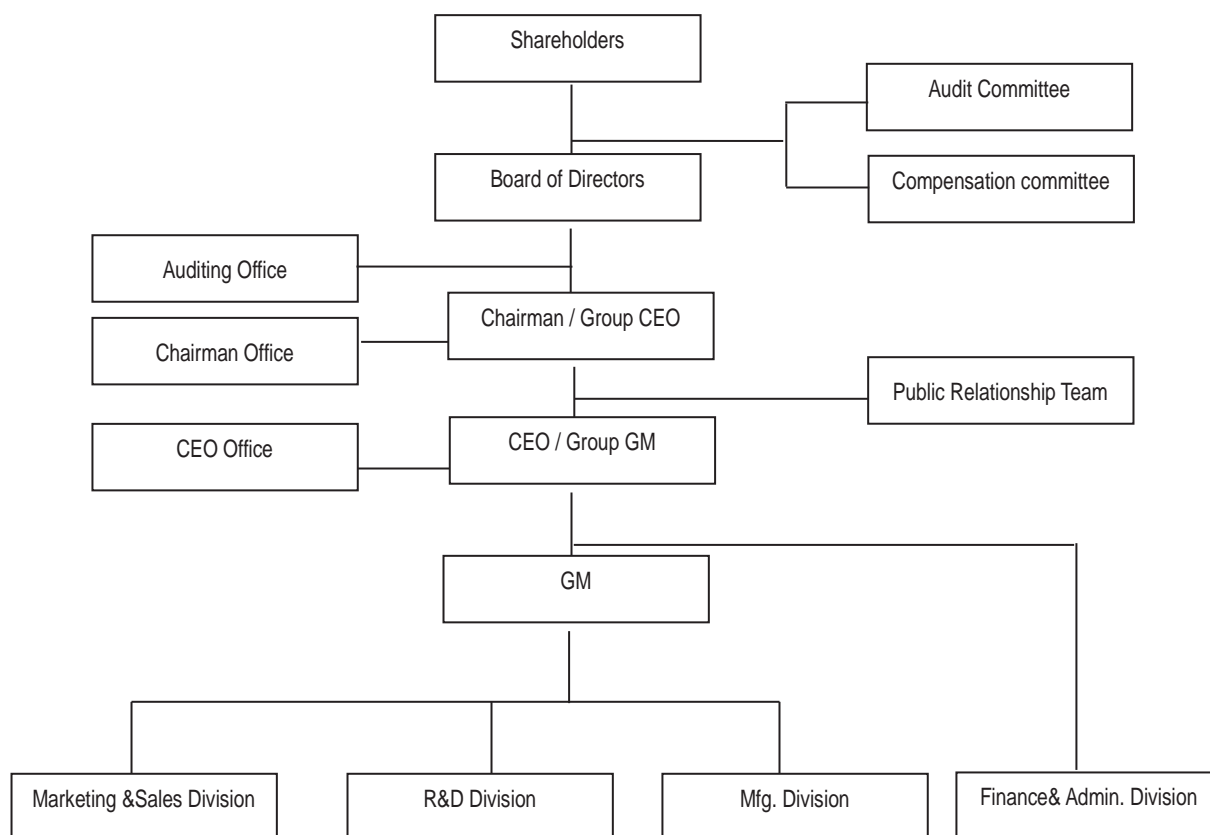
- 1988** In April, established at Hsin-Chu SBIP to manufacture Holographic security labels.
- 1989** Develop the recombination technology and the application of products to enlarge market share.
- 1990** Introduced 15 cm wide holographic film materials.
- 1991** Developed the 30 cm embossing machine, put the holographic PVC film and the hologram Self-Adhesive sticker on the market.
- 1992** (1) Introduced 60 cm and 80 cm wide holographic materials.
(2) Introduction of CONTACT COPY and TRUE COLOR laser holography.
- 1993** (1) US Subsidiary - AMAGIC Holographics, Inc. established.
(2) The introduction of digital laser holography. Launch of glazing film products.
- 1994** (1) Launched laser bronzing film products.
(2) Developed a holographic photography technique with various technology combinations
- 1995** (1) Launch the holographic box and the transparent hologram security film.
- 1996** (1) Matched the requirement of Public Company. (2) Opto- Electronics Business Unit Established.
(3) Received Award for SBIP Innovation Project. (4) Introduced Color-Laser OPPmaterials.
(5) Dubai & Thailand Subsidiaries established.
- 1997** (1) Received Outstanding OE Manufacturer Award.
- 1998** (1) Introduced 100 cm wide holographic materials. (2) ISO 9001 certified.
(3) Received Best OE Product Award for Phase-shift Fizeau Interferometer
- 1999** Public listed on OTC of Taiwan Stock Market.
- 2000** Received Small and Medium Enterprise Award, Ministry of Economic Affair, ROC.
- 2001** (1) HQs grand opening. (2) Public listed on SFC of Taiwan Stock Market.
(3) Received National Award of Small and Medium Enterprises. (4) Established US RD center.

- (5) China Subsidiaries – Wuxi K Laser and K Laser Dong Guan established.
- (6) Electronics Subsidiary – Everest Display Inc. established.
- 2002** K Laser Technology (Korea) Co., Ltd. Established.
- 2003** K Laser Technology Japan Co., Ltd established.
- 2004** Invested Optivision Technology Inc.
- 2012** (1) Launch the true seamless hologram film.
(2) In November, acquired ownership of 4,200,000 the private placement of common shares of Optivision Technology Inc.
- 2014** In December, the subsidiary Optivision Tech. Inc. public listed on OTC of Taiwan Stock Market.
- 2015** Invested Insight Medical Solutions Inc.
- 2016** (1) In January, consolidated HuNan HeRui Laser Technology Co., Ltd as a subsidiary .
(2) In October, consolidated Everest display Inc. as a subsidiary.
- 2017** In November, K Laser's subsidiary-Boxlight Corporation listed on NASDAQ (Ticker:BOXL).
- 2019** (1) In December, consolidated Insight Medical Solutions Inc. as a subsidiary.

Corporate Governance

1. Organization System

1.1 Organization Chart



1.2 Functional Major Departments

| Major Departments | Functions |
|----------------------------|--|
| Chairman Office | <ul style="list-style-type: none"> • Business Development. • Public Relationship. |
| CEO Office | <ul style="list-style-type: none"> • Company management. • Subsidiaries management. |
| Auditing Office | <ul style="list-style-type: none"> • To evaluate the accuracy, reliability, efficiency, and effect of internal control. • To provide the suggestion, improve the business efficiency and ensure the internal control system is implemented effectively. |
| Finance & Admin. Division | <ul style="list-style-type: none"> • Financial planning, cash management, accounting and shareholder related business. • Subsidiaries supporting. • Human resource, training and general affairs. • IT development and ERP implementation. |
| Mfg. Division | <ul style="list-style-type: none"> • Manufacturing. |
| R&D Division | <ul style="list-style-type: none"> • R&D. |
| Marketing & Sales Division | <ul style="list-style-type: none"> • Marketing, sales and exporting |

2 Directors and Major Officers

2.1 Directors

2020.03.30

| Title | Name | Gender | Elected Date | Term (Years) | First Elected Date | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding Entitled Other Name | | Experience and Education | Other Current Positions | Managers, Directors or Supervisors Who Are Spouse or Within 2 Degrees of Consanguinity to Each Other | | | Note |
|----------------------|---------------------|--------|--------------|--------------|--------------------|---------------------------|------|----------------------|------|-----------------------------|------|----------------------------------|---|--|---|--|------------|-------------------------|-------|
| | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation | |
| Chairman | Alex Kuo | Male | 2017.05.26 | 3 | 1988.03.16 | 10,187,756 | 7.61 | 10,997,756 | 6.90 | 1,040,194 | 0.65 | — | — | • Ph.D. in EE , State University of New York at Stony Brook | • CEO, K Laser Group • Chairman and GM, K Laser Technology Inc. • Chairman and director, the Subsidiaries of K Laser Group. | Director | Daniel Kuo | Second degree relatives | Note1 |
| | | | | | | | | | | | | | | | | Director | Lisa Hsu | Spouse | |
| Director | Daniel Kuo | Male | 2017.05.26 | 3 | 1992.06.21 | 1,028,254 | 0.77 | 1,122,254 | 0.70 | 4,572 | — | — | — | • MS in Civil Engineering, NJIT, NJ. | • Chairman, OTI. • Director, the Subsidiaries of K Laser Group. | Chairman | Alex Kuo | Second degree relatives | |
| | | | | | | | | | | | | | | | | Director | Lisa Hsu | | |
| Director | Lisa Hsu | Female | 2017.05.26 | 3 | 2011.06.17 | 752,980 | 0.56 | 1,040,194 | 0.65 | 10,997,756 | 6.90 | — | — | • Computer Science, MS , New York Institute of Technology • Economics, MS, State University of New York · SUNY | • Deputy Spokesman • Supervisor, Everest Display Inc. • Director, the Subsidiaries of K Laser Group. | Director | Daniel Kuo | Second degree relatives | |
| | | | | | | | | | | | | | | | | Chairman | Alex Kuo | Spouse | |
| Director | C.L. Kuo | Male | 2017.05.26 | 3 | 2017.05.26 | — | — | — | — | — | — | — | — | • Department of industrial engineering and Management Bachelor degree ,National Taipei University of Technology • CEO, K Laser China Group • GM, Dong Guan K Laser • GM,WUXI K Laser • Director of Factory Affairs and General Administration, K Laser | • Director, the Subsidiaries of K Laser Group. | — | — | — | |
| Independent Director | Cheng Sang Huang | Male | 2017.05.26 | 3 | 2002.05.17 | — | — | — | — | — | — | — | — | • MS in IndMS in Industrial Management, National Cheng Kung University • President, Business Management Consultants Association of Republic of China • GM, Sunsino Ventures Group. • Secretary General, MIT Enterprise Forum of Taiwan • Director, Small Business Integrated Assistance Center | • Supervisor, Niko semiconductor Co., Ltd. | — | — | — | |
| Independent Director | Gen-Sen Chang-Hsieh | Female | 2017.05.26 | 3 | 2011.06.17 | — | — | — | — | 476 | — | — | — | • MBA, Irvine University , California • Professor, Hwa Hsia University of Technology • CPA, American International Accounting Firm • Chief Financial Officer, K Laser Technology (USA) • CPA, Xin'an Accounting firm | • Independent director, K Laser Technology Inc. • Independent director, China Airlines Ltd. | — | — | — | |
| Independent Director | Bi-Xin Huang | Female | 2017.05.26 | 3 | 2017.05.26 | — | — | — | — | — | — | — | — | • MBA, National Chiao Tung University • Administrative finance Director, Hanergy Technologies, Inc. • Investor Relations Corporate Finance Manager, Avid Electronics Corp. • Accountant Supervisor, Taiwan Semiconductor Manufacturing Co., Ltd. • Accountant Manager, AST Research, Inc. | • Independent director, K Laser Technology Inc. • Supervisor, Chin-Shi Electronic Materials Ltd. | — | — | — | |

Note1: The chairman of the company and the general manager or equivalent (the top manager) are the same person, relatives such as spouse or one parent, and should explain the reasons, rationality, necessity and corresponding measures:

The chairman and general manager of the company can have more information to understand the company's operating conditions, so that the board of directors can better grasp the company's operating conditions, improve management efficiency and smooth decision-making execution. In 2017, K has set up an audit committee which clearly stipulates the audit committee's organizational procedures. It can also supervise the management of the board of directors and reduce the doubts of the chairman and general manager.

Major Institutional Shareholders : None.

Major Shareholders of the Corporate Shareholders : None.

Directors and Supervisors Remuneration in 2019

Unit: NT\$ thousands

| Title | Name | Remuneration | | | | | | | | Amount as a % of 2017 Net Income (A+B+C+D) | | Employee Remuneration | | | | | | | | Amount as a % of 2019 Net Income (A+B+C+D+E+F+G) | | Compensat ion from other K Laser Invest Companies (J) |
|--------------------------|------------------------|-------------------|------|-----------------------|------|--|------|---------------------------------|------|--|--------|---|-------|-----------------------|------|------------------------------|----------------|---------------|----------------|--|--------|---|
| | | Honorarium (A) | | Retirement pay (B) | | Director, and Supervisor Compensation (C) | | Transportation Allowance (D) | | | | Bonus and Special Remuneration (E) | | Retirement pay (F) | | Employee Compensation (G) | | | | | | |
| | | K Laser | Sub. | K Laser | Sub. | K Laser | Sub. | K Laser | Sub. | K Laser | Sub. | K Laser | Sub. | K Laser | Sub. | K Laser | | Sub. | | K Laser | Sub. | |
| | | | | | | | | | | | | | | | | Cash Bonus | Stock Bonus | Cash Bonus | Stock Bonus | | | |
| Chairman | Alex Kuo | — | — | — | — | — | — | 36 | 36 | -0.03% | -0.03% | 3,280 | 4,614 | — | — | — | — | — | — | -2.77% | -3.88% | — |
| Director | Daniel Kuo | — | — | — | — | — | — | 36 | 72 | -0.03% | -0.06% | — | 5,213 | — | — | — | — | — | — | -0.03% | -4.41% | — |
| Director | Lisa Hsu | — | — | — | — | — | — | 36 | 36 | -0.03% | -0.03% | 1,941 | 1,941 | — | — | — | — | — | — | -1.65% | -1.65% | — |
| Director | C.L. Kuo | — | — | — | — | — | — | 30 | 30 | -0.03% | -0.03% | — | — | — | — | — | — | — | — | -0.03% | -0.03% | — |
| Independe nt Director | Cheng Sang Huang | 240 | 240 | — | — | — | — | 36 | 36 | -0.23% | -0.23% | — | — | — | — | — | — | — | — | -0.23% | -0.23% | — |
| Independe nt Director | Bi-Xin Huang | 240 | 240 | — | — | — | — | 36 | 36 | -0.23% | -0.23% | — | — | — | — | — | — | — | — | -0.23% | -0.23% | — |
| Independent Director | Gen-Sen Chang-Hsieh | 240 | 240 | — | — | — | — | 36 | 36 | -0.23% | -0.23% | — | — | — | — | — | — | — | — | -0.23% | -0.23% | — |

Explain: (1). According to Articles of Incorporation, the Board of Directors is authorized to determine the salary for the Chairman, Vice Chairman and Directors, taking into account the extent and value of the services provided for the management of the Corporation and the standards of the industry within the R.O.C. and overseas.

(2). The relevant remuneration for directors and independent directors shall be handled in accordance with the personnel compensation policy adopted by the board of directors and subject to their assessment.

Directors' Professional Knowledge and Independence Information

| Name | Qualification | Professional qualification requirements, together with at least five years work experience | | | Independence Status (Note 1) | | | | | | | | | | | | Holds a concurrent post of independence director of other public release company. |
|---------------------|---------------|--|---|--|------------------------------|---|---|---|---|---|---|---|---|----|----|----|---|
| | | An instructor or higher in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college, or university | A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company | Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Alex Kuo | — | — | ✓ | — | — | — | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | — | ✓ | ✓ | — |
| Daniel Kuo | — | — | ✓ | — | — | — | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | — | ✓ | ✓ | — |
| Lisa Hsu | — | — | ✓ | — | — | — | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | — | ✓ | ✓ | — |
| C.L. Kuo | — | — | ✓ | ✓ | — | ✓ | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | — |
| Cheng Sang Huang | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | — |
| Bi-Xin Huang | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | — |
| Gen-Sen Chang-Hsieh | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | — |

Note 1:

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company's affiliates (Except in the case of an independent director who is a company or its parent company, a subsidiary under this Act or a local law).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, children of minor age, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company
- (7) Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the company's chairman or CEO (or equivalent)
- (8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company
- (9) Other than serving as a compensation committee member of the company, not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, and the service provided is an "audit service" or a "non-audit service" which total compensation within the recent two years exceeds NTD500,000
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company.
- (11) Not been a person of any conditions defined in Article 30 of the Company Law.
- (12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.2 Major Officers' Information

2020.03.30

| Title | Name | Gender | Employed Date | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding Entitled Other Name | | Experience and Education | Other Current Positions | Managers Who Are Spouse or Within 2 Degrees of Consanguinity to Each Other | | |
|---|--------------|--------|---------------|----------------------|------|-----------------------------|------|----------------------------------|---|--|---|--|------|----------|
| | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| CEO, K Laser Group. & GM | Alex Kuo | Male | 2002.08.21 | 10,997,756 | 6.90 | 1,040,194 | 0.65 | — | — | • Ph.D. in EE, SUNY Stony Brook, NY • Chairman, K Laser Group. | — | — | — | — |
| CFO & Financial officer | Teresa Huang | Female | 2006.01.03 | 460,500 | 0.29 | — | — | — | — | • M.Acc, Bentley U., U.S.A • Finance Manager of K Laser | • Supervisor, Rongsheng Trading Co., Ltd. | — | — | — |
| Financial officer(2019.05.10 Resignation) | Vincent Tsai | Male | 2016.05.13 | — | — | — | — | — | — | • M.Acc, SUNY • Senior Financial Manager • Special Assistant , Chairman office of K Laser Technology Inc. | — | — | — | — |
| Director, R&D Division | Kung Lin liu | Male | 2019.08.12 | — | — | — | — | — | — | • Ph.D. in Chemistry, SUNY Stony Brook, NY • R&D Manager of K Laser | — | — | — | — |
| Accounting officer | Serena Hung | Female | 2013.08.13 | 132,000 | 0.08 | — | — | — | — | • MS in Management Science, National Chiao Tung University • Manager, K Laser Technology Inc. | — | — | — | — |
| Manager, Auditing Office | Yumei Tsai | Female | 2018.08.14 | 37,715 | 0.02 | — | — | — | — | • California State University, San Francisco, Institute of Electronic Communications • Manager, Auditing Office , K Laser Technology Inc. | — | — | — | — |

President Remuneration in 2019

| Title | Name | Salary(A) | | Retirement pay (B) | | Bonus and Special Remuneration (C) | | Employee Compensation (Note1) (D) | | | | Total Amount as a % of 2019 Net Income | | Compensation from other K Laser Invest Companies(E) |
|-------------------------|----------|-----------|---------------------------|--------------------|---------------------------|------------------------------------|---------------------------|--------------------------------------|-------------|---------------------------|-------------|--|---------------------------|---|
| | | K Laser | All consolidated entities | K Laser | All consolidated entities | K Laser | All consolidated entities | K Laser | | All consolidated entities | | K Laser | All consolidated entities | |
| | | | | | | | | Cash Bonus | Stock Bonus | Cash Bonus | Stock Bonus | | | |
| CEO, K Laser Group.& GM | Alex Kuo | 2,378 | 3,617 | — | — | 902 | 998 | — | — | — | — | -2.74% | -3.85% | — |

Note1: It is the non-distribution of employee compensation in 2019, which was passed by the board of directors on March 30, 2020.

Remuneration of the top five remuneration executives of listed OTC companies

Unit: NT\$ thousands

| Title | Name | Honorarium (A) | | Retirement pay (B) | | Bonus and Special expenses (C) | | Employee Remuneration (D) | | | | Amount as a % of 2019Net Income(A+B+C+D) | | Compensation from other K Laser Invest Companies |
|-----------------------------------|--------------|----------------|-------|--------------------|------|--------------------------------|------|---------------------------|-------------|------------|-------------|--|--------|--|
| | | K Laser | Sub. | K Laser | Sub. | K Laser | Sub. | K Laser | | Sub. | | K Laser | Sub. | |
| | | | | | | | | Cash Bonus | Stock Bonus | Cash Bonus | Stock Bonus | | | |
| CEO,K Laser Group. & GM | Alex Kuo | 2,378 | 3,617 | — | — | 902 | 998 | — | — | — | — | -2.74% | -3.85% | — |
| CFO& Financial officer | Teresa Huang | 1,778 | 1,778 | 144 | 144 | 383 | 383 | — | — | — | — | -1.92% | -1.92% | — |
| Special Assistant to the Chairman | Vincent Tsai | 1,598 | 1,598 | 103 | 103 | 359 | 359 | — | — | — | — | -1.72% | -1.72% | — |
| Marketing department officer | Jacky Chen | 1,253 | 1,522 | 106 | 106 | 321 | 321 | — | — | — | — | -1.40% | -1.63% | — |
| Acting Spokesperson | Lisa Hsu | 1,352 | 1,352 | — | — | 589 | 589 | — | — | — | — | -1.62% | -1.62% | — |

Note1: It is the non-distribution of employee compensation in 2019, which was passed by the board of directors on March 30, 2020.

Major Officers' Employee Compensation

2020.03.30 / Unit : NT\$ Thousands

| | Title | Name | Stock Bonus | Cash Bonus | Total Amount | Total Amount as a % of 2019 Net Income |
|----------------|--------------------------|--------------|-------------|------------|--------------|--|
| Major Officers | CEO, K Laser Group.& GM | Alex Kuo | — | — | — | — |
| | CFO& Financial officer | Teresa Huang | | | | |
| | Director, R&D Division | Kung Lin liu | | | | |
| | Manager, Auditing Office | Yumei Tsai | | | | |
| | Accounting officer | Serena Hung | | | | |

Note: It is a non-distribution approved by the resolution of the board of directors on March 30, 2020.

Total remuneration as a percentage of net income as paid by the company, and by each other company included in the consolidated financial statements, during the past two fiscal years to its Directors, Supervisors, the General Manager, and Assistant General Managers, and description of remuneration policies, standards, packages, procedures for setting remuneration, and linkage to performance.

Unit : NT\$ Thousands

| Title | 2018 | | | | 2019 | | | |
|---------------------|------------------------|---|--|--------|-------------|---------|--|----------|
| | The company | | Companies in the consolidated financial statements | | The company | | Companies in the consolidated financial statements | |
| | Remunerations (Item A) | Percent of Remunerations over net profit (Item B) | Item A | Item B | Item A | Item B | Item A | Item B |
| Director | 8,583 | 13.04% | 15,540 | 23.61% | 6,187 | (5.16%) | 12,771 | (10.66%) |
| GM and Assistant GM | 3,280 | 4.98% | 4,716 | 7.16% | 3,280 | (2.74%) | 4,614 | (3.85%) |

Note: (1) The remuneration program to the directors and supervisors are designed, in accordance with the Company's Article , the participation level of the operation, the contribution to the Company, and the industrial level of Taiwan.

(2) The remuneration program and policy to the General Manager and Assistant GM are designed based on the policy as approved by the board of directors, and the evaluation of the performance of that year.

(3) The remunerations of 2018 have been paid. Part of Compensation in 2019 is not to be distributed by the resolution of the board of directors on March 30, 2020.

3. Corporate Governance

3.1 The state of operation of Board of Directors

Dr. Alex Kuo, the Chairman of the Board of Directors conducted 6 meetings in 2019. The directors' attendance status is as follows:

| Title | Name | Actual attendance number of times | Agency attendance number of times | Actual attendance | Remarks |
|----------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|---------|
| Chairman | Alex Kuo | 6 | 0 | 100% | — |
| Director | Daniel Kuo | 6 | 0 | 100% | — |
| Director | Lisa Hsu | 6 | 0 | 100% | — |
| Director | C.L. Kuo | 6 | 0 | 100% | — |
| Independent Director | Cheng Sang Huang | 6 | 0 | 100% | — |
| Independent Director | Gen-Sen Chang-Hsieh | 6 | 0 | 100% | — |
| Independent Director | Bi-Xin Huang | 6 | 0 | 100% | — |

Note:

Other matters to be included:

- (1) The operation of the board of directors is one of the following circumstances, it shall be noted in the minutes of the directors meeting:
 - (a) The matters listed in Securities and Exchange Act Article 14-3 :
Matters referred to in Article 14-3 of the Securities and Exchange Act: Not applicable as the Company has already established an Audit Committee.
 - (b) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors : None
- (2) If there is Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motions, causes for avoidance and voting should be specified:
 - (a) The rules of procedure for board meetings of the company has been set, if a director or a juristic person represented by the director is an interested party with respect to any proposal for a board meeting, the director shall state the important aspects of the interested party relationship at the meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that proposal and shall enter recusal during the discussion and voting. The director also may not act as another director's proxy to exercise voting rights on that matter.
 - (b) If a Director violates the avoidance of motion and exercises his/her vote, the vote is invalid.
 - (c) The related instructions of directors' conflict of interest until now:

●2019/03/26 The 11th Meeting of the 11th Term of Board of Directors

--Approved the distribution proposal for directors, supervisors and employee.

Chairman-Mr.Alex Kuo , Director – Ms.Lisa Hsu , Director - Daniel Kuo are employee of the company , does not participate in the discussion and voting of this proposal

●2019/05/10 The 12th Meeting of the 11th Term of Board of Directors

--Approved the salary adjustment of Executive director.

Chairman-Mr.Alex Kuo , Director – Ms.Lisa Hsu ,are employees of the company , does not participate in the discussion and voting of this proposal

●2019/08/14 The 13th Meeting of the 11th Term of Board of Directors :

--Approved the 2018 performance evaluation of managers.

Director – Ms.Lisa Hsu ,is employee of the company , does not participate in the discussion and voting of this proposal

--Approved the 2018 bonus distribution of managers.

Chairman-Mr.Alex Kuo , Director – Ms.Lisa Hsu , Director –Mr.Daniel Kuo,are employees of the company , does not participate in the discussion and voting of this proposal

--Approved the amendments of Treasury Stock Sold to Employees.

Chairman-Mr.Alex Kuo , Director – Ms.Lisa Hsu , Director –Mr.Daniel Kuo,are employees of the company , does not participate in the discussion and voting of this proposal

●2019/12/17 The 15th Meeting of the 11th Term of Board of Directors :

--Approved the amendments of Treasury Stock Sold to Employees.

Chairman-Mr.Alex Kuo , Director – Ms.Lisa Hsu , Director –Mr.Daniel Kuo,are employees of the company , does not participate in the discussion and voting of this proposal

- (3) The Status of the performance assessment of the board of directors:
The cycle of performance assessment: Once a year
The periods of the assessment: 2019/1/1-2019/12/31
The scope of assessment: board of directors and directors
The methods of the assessment: self-assessment and peer-to-peer assessments
The content of the assessment: Full score is 5 points

I.
The performance assessment of the board of directors

| assessment indicators | Average score |
|--|---------------|
| The degree of participation in the company's operations | 4.83 |
| Improvement in the quality of decision making by the board of directors. | 4.79 |
| The composition and structure of the board of directors | 4.96 |
| The election of the directors and their continuing professional education. | 4.90 |
| Internal controls | 4.83 |

II.
Performance evaluation of individual directors:
performance evaluation of board members

| assessment indicators | Average score |
|--|---------------|
| Mastering the company's goals and tasks | 4.67 |
| Director's responsibilities | 4.86 |
| The degree of participation in company operations | 4.80 |
| Internal relationship management and communication | 4.86 |
| The election of the directors and their continuing professional education. | 4.81 |
| Internal controls | 4.86 |

III.
Functional Committee Performance Evaluation:
A. Audit Committee Performance Evaluation

| assessment indicators | Average score |
|---|---------------|
| The degree of participation in the company's operations | 5.00 |
| Their recognition of the duties of the functional committee | 4.53 |
| The composition of the functional committee, and election and appointment of committee members. | 4.67 |
| Internal controls | 4.67 |

B. Remuneration Committee Performance Evaluation

| assessment indicators | Average score |
|---|---------------|
| The degree of participation in the company's operations | 5.00 |
| Their recognition of the duties of the functional committee | 4.80 |
| The composition of the functional committee, and election and appointment of committee members. | 4.89 |

(4).The assessment of the objective and implementation status for enhancing the functions of the Board of Directors :

- (a) K Laser's Board of Directors consists of seven directors, three of those seven members are independent directors and three are female. The company's board of directors has a diverse background, including professional backgrounds from different industries and finance.
 - (b) K Laser's Board of Directors is responsible for improving the corporate governance and professional functions of the Board of Directors on May 10, 2019. The Board of Directors decided to revise rules and procedures of Board of Directors Meetings. to update operating procedures required by directors.
- (C) Assessment of implementation : The Audit Committee is functioning normally

3.2 The Operation of the Audit Committee Work within the Board of Directors of the Company

The Audit Committee is composed of all of the three Independent Directors. The Audit Committee assists the Board in fulfilling its oversight of the quality and integrity of the accounting, auditing, reporting, and financial control practices of the company.

The Audit Committee is responsible to review the following major matters:

- A. Internal control systems including related policies and procedures.
- B. Assessment of the effectiveness of the internal control system.
- C. The procedures for handling financial or business activities of a material nature, such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, and endorsements or guarantees for others.
- D. Matters in which a director is an interested party.
- E. Asset transactions or derivatives trading of a material nature.
- F. Loans of funds, endorsements, or provision of guarantees of a material nature.
- G. The offering, issuance, or private placement of equity-type securities.
- H. The hiring or dismissal of a certified public accountant, or their compensation
- I. The appointment or discharge of a financial, accounting, or internal audit officer
- J. Annual and semi-annual financial reports.

2019 business report, financial statements and distribution proposal of the company approved by the Board, the financial statements have been verified by the CPA of Deloitte & Touche, and a verification report has been issued. The above business report, financial statements and distribution proposal of the company have been checked by the audit committee.

The audit committee evaluates the effectiveness of the company's internal control system (including sales, purchasing, production, personnel, finance, IT security, legal compliance and other control measures), and supervise the company's internal audit and review the results of self-assessment of internal control.

In order to perform its duties, the audit committee has the right to conduct any appropriate audits in accordance with Audit Committee charter, and has direct communication channel with the company's internal auditors, CPA, and all employees. The Audit Committee may resolve to retain the service of an attorney, CPA, or other professionals to provide advice . The Audit Committee Charter of the company please refer to K Laser website.

The Audit Committee's responsibility is to supervise the independence of the CPA firm to ensure the fairness of the financial statements, in order to ensure the independence of the CPA, the Audit Committee has formulated an independence assessment form with reference to Article 47 of the Certified Public Accountant Act and No. 10 of code of ethics for professional accountants Rules of professional conduct 「 Integrity, Objectivity, and Independence 」 , to assess the independence, professionalism and suitability of CPA, to assess whether they are related parties, have business or financial interests with the company; Mr.Huang Yi Min and Mr. Kenny Hong of Deloitte & Touche were approved by the 11th Meeting of the first term of Audit Committee on 2019/11/8 and Mr.Arvin Hsu and Mr.Huang Yi Min. of Deloitte & Touche were approved by 13th Meeting of the first term of Audit Committee on 2020/3/30, fully able to serve as the company's financial and tax visa accountant.

Audit Committee Meeting Staus:

Mrs. Gen-Sen Chang-Hsieh, the Convener of the Audit Committee conducted 5 meetings in 2019. The Audit Committee' attendance status is as follows:

| Title | Name | Actual attendance number of times | Agency attendance number of times | Actual attendance | Remarks |
|----------|---------------------|-----------------------------------|-----------------------------------|-------------------|---------|
| Convener | Gen-Sen Chang-Hsieh | 5 | 0 | 100% | — |
| Member | Cheng Sang Huang | 5 | 0 | 100% | — |
| Member | Bi-Xin Huang | 5 | 0 | 100% | — |

Annotations:

(1) (a) Resolutions of Audit Committee Meeting:

| 7) Resolutions of Audit Committee Meeting. | | | |
|--|---|--------------------|--|
| Meeting Dates | Resolution | Exchange Act §14-5 | The matter was not approved by the audit committee, but had the consent of more than two-thirds of all directors |
| March 26, 2019 (The 8 th Regular Meeting of the first Audit Committee) | 1. Approved 2018 Audit Report and the Disclosure of Statement of Internal Control System | √ | None |
| | 2. Approved 2018 Operating Report and 2018 Financial Statements | √ | |
| | 3. Approved the distribution proposal for 2018 dividend | | |
| | 4. Approved the amendments of Asset Acquisition & Disposal Procedures and Policies | √ | |
| | 5. Approved the amendments of Procedures for Financial Derivatives Transactions | | |
| | 6. Approved the amendments of the Procedures for Lending Funds to Others. | √ | |
| | 7. Approved the amendments of the Procedures for Endorsements & Guarantees. | √ | |
| | 8. Approved the amendments of Procedures of Subsidiary for Lending Funds to Others and Endorsement Guarantee. | √ | |
| | Resolution : All members of Audit Committee approved. The company's handling of the opinions of the audit committee : All members of Audit Committee approved. | | |
| May 10, 2019 (The 9 th Regular Meeting of the first Audit Committee) | 1. Approved 2019 Q1 Financial Statements. | √ | None |
| | 2. Approved the amendments of Internal Control Systems. | √ | |
| | Resolution : All members of Audit Committee approved. The company's handling of the opinions of the audit committee : All members of Audit Committee approved. | | |
| August 14, 2019 (The 10 th Regular Meeting of the first Audit Committee) | 1. Approved 2019 Q2 Financial Statements. | √ | |
| | 2. Approved the amendments of Treasury Stock Sold to Employees. | | |
| | Resolution : All members of Audit Committee approved. The company's handling of the opinions of the audit committee : All members of Audit Committee approved. | | |
| November 8, 2019 (The 11 th Regular Meeting of the first Audit Committee) | 1. Approved 2019 Q3 Financial Statements and distribution proposal. | √ | None |
| | 2. Approved the endorsement and guarantee of the loan for the subsidiary, Everest Display Inc. | √ | |
| | 3. Approved the grant loan to the subsidiary company, Everest Display Inc. | √ | |
| | 4. Approved the independence assessment of CPA | √ | |
| | Resolution : All members of Audit Committee approved. The company's handling of the opinions of the audit committee : All members of Audit Committee approved. | | |
| December 17, 2019 (The 12 th Regular Meeting of the first Audit Committee) | 1. Approved the amendments of the article of Treasury Stock Sold to Employees | | None |
| | 2. Approved the amendments of Self-Evaluation of the Board of directors | | |
| | Resolution : All members of Audit Committee approved. The company's handling of the opinions of the audit committee : All members of Audit Committee approved. | | |
| March 30, 2020 (The 13 th Regular Meeting of the first Audit Committee) | 1. Approved 2019 Audit Report and the Disclosure of Statement of Internal Control System | √ | None |
| | 2. 2. Approved the endorsement and guarantee of the loan for the subsidiary, Everest Display Inc. | √ | |
| | 3. Approved the independence assessment of CPA | √ | |
| | 4. 2019 Financial Statements and Deficit compensated. | √ | |
| | Resolution : All members of Audit Committee approved. The company's handling of the opinions of the audit committee : All members of Audit Committee approved. | | |

- (b) There was no other resolution which was not approved by the Audit Committee but was approved by two-thirds or more of all directors in 2019.
- (2) There were no recusals of independent directors due to conflicts of interests in 2019.
- (3) Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2019 (which should include the material items, channels, and results of the audits on the corporate finance and/or operations, etc.):

- (a) The internal auditors have sent the audit reports to the members of the Audit Committee periodically, and presented the findings of all audit reports in the quarterly meetings of the Audit Committee.

The head of Internal Audit will immediately report to the members of the Audit Committee any material matters. During 2019, the head of Internal Audit did not report any such material matters. The communication channel between the Audit Committee and the internal auditor functioned well.

- (b) The Company's independent auditors have presented the findings of their quarterly review or audits on the Company's financial results. Under applicable laws and regulations, the independent auditors are also required to immediately communicate to the Audit Committee any material matters that they have discovered. During 2019, the Company's independent auditors did not report any irregularity. The communication channel between the Audit Committee and the independent auditors functioned well.

The communications between the independent directors, the internal auditors, and the independent auditors are listed in the table below.

| Meeting Dates | Communications between the Independent Directors and | Communications between the Independent Directors and |
|--|--|--|
| May 10, 2019 (The 9th Regular Meeting of the first Audit Committee) | Reviewing the Internal Auditor's report (closed door) | 1.Reviewing any review problems or difficulties and management's response in connection with 2019 Q1 financial statements (closed door). 2.reviewing regulatory developments |
| August 14, 2019 (The 10th Regular Meeting of the first Audit Committee) | Reviewing the Internal Auditor's report (closed door) | 1.Reviewing any review problems or difficulties and management's response in connection with 2019 Q2 financial statements (closed door). 2.Reviewing regulatory developments |
| November 8, 2019 (The 11th Regular Meeting of the first Audit Committee) | Reviewing the Internal Auditor's report (closed door) | 1.Reviewing any review problems or difficulties and management's response in connection with 2019 Q3 financial statements (closed door). 2.Reviewing regulatory developments |
| December 17, 2019 (The 12th Regular Meeting of the first Audit Committee) | Reviewing the Internal Auditor's report (closed door) | Reviewing regulatory developments |
| March 30, 2020 (The 13th Regular Meeting of the first Audit Committee) | 1. reviewing the Internal Auditor's report (closed door) 2. reviewing and approving 2019 Statement of Internal Control System (closed door) | 1. reviewing any audit problems or difficulties and management's response in connection with 2019 annual financial statements (closed door) 2.reviewing regulatory developments |

Resolution : All members of Audit Committee approved and Independent Directors approved.

3.4 Corporate Governance Status in Compliance with the Corporate Governance Guidance Rules for Listed Companies

| Items | Implementation Status | | | Remark |
|---|-----------------------|---|---|--------|
| | Y | N | Description | |
| 1. The establishment and disclosure of Company's Own Corporate Governance Guidance. | ✓ | | The company expects to send the company's corporate governance Principles to the board of directors for approval on May 12, 2020 , and will upload MOPS and K Laser's web site after approved by the Board. | None |
| 2. Shareholding Structure & Shareholders' Rights (1) Method of handling shareholder suggestions or complaints (2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3) Risk management mechanism and "firewall" between the Company and its affiliates (4) Method of prohibiting the Company's insider to trade the Company's stock by using non-public information | ✓ | | (1) The Company has designated the spokesman · the deputy spokesman and responsible personnel to handle shareholder's suggestions or complaints. (2) The Company has appointed responsible personnel to manage the list of major shareholders and the ultimate owners. (3) The obligations and rights between the Company and its affiliates have been clearly defined. Any transaction between the Company and its affiliates complies with the internal control system. (4) The Company has established the method to prohibit the Company's insiders to trade the Company's stock by using non-public information. | None |
| 3. Composition and Responsibilities of the Board of Directors (1) The composition of the board of directors is determined by taking diversity into consideration (2) The establishment of functional committees such as the nomination or compensation committees by Company (3) The Company formulate rules and procedures for board of directors performance assessments (4) Regular evaluation of CPAs' independence | ✓ | | (1) The company expects to send the company's corporate governance Principles to the board of directors for approval on May 12, 2020, Chapter 3 strengthens the functions of the board of directors, that is, formulates a policy of diversity of board members. The nomination and selection of the members of the board of directors are in accordance with the company's articles, which adopt the cumulative voting mechanism. In addition to assessing the qualifications of each candidate's academic experience, It also abide by the procedures for election of directors and the company's corporate governance principles of TWSE to ensure the diversity and independence of directors. (2) The Board members of the company have different professional backgrounds, genders and work areas, the directors of 11th Board of Director of the company, Chairman Alex Kuo, Director Daniel Kuo, Director C L Kuo, are expert in business management, decision-making judgment, international negotiation, crisis management and have in-depth and rich industrial knowledge and international market outlook, director Lisa Hsu is expert in Communication and public relations, The independent directors Huang Zhensang, Zhang Xiejinsen, Huang Bixin have rich experience and expertise in related fields such as financial, industrial analysis, enterprise resource planning integration, financial affairs, financial accounting. (3) In order to implement the diversity of directors and improve the structure of the board of directors, the proportion of female directors is 43%, 57% of directors with employee status, One independent director has a term of less than 3 years, one independent director has a term of 4 to 6 years, and 7 directors are all aged 60 to 69 years old. In order to continue to strengthen the diversity of directors of the company, the company expects to add more board members in different professional fields to the 12th board of directors (4) the policy of diversity of directors can be found on the K Laser's website and MPOS. (5) The Company has set up the compensation committee. If it is necessary, the Company would set up other committees to meet the business requirement. (6) The Company has established the rules and procedures to evaluate the performance of the board of directors, and the evaluation would be done before the annual General Shareholder Meeting on an annual basis (7) The Company reviews the auditors' independence annually. The Company has established the procedure of evaluation of CPA's independence, and is approved by the board of directors on 2019/11/8. (the evaluation Criteria for Accountant Independence please refer note1.) 2019 financial statement and the appointment of CPA were approved by the Board of Director on 2020/3/30 | None |
| 4. The company establishes a corporate governance unit or personnel (Including but not limited to providing directors, supervisors to implement the business required information, according to the Board of Directors and the shareholders of the meeting of the relevant matters, the company for the company, the company is responsible for | ✓ | | The Company's corporate governance is managed by Chairman Office and Financial / Administration Department. the company governance affairs include furnishing information required for business execution by directors, handling matters relating to board meetings and shareholders meetings according to laws, producing minutes of board meetings and shareholders meetings. | None |

| Items | Implementation Status | | | Remark |
|--|-----------------------|---|--|--------|
| | Y | N | Description | |
| corporate governance, Registration and alteration registration, production of board of directors and shareholders' meeting, etc.) | | | | |
| 5. Establishment of Communication Channels with Shareholders | ✓ | | Our company has establishment of an official channel and website for suppliers 、 customers 、 banks and shareholders to respond all significant issues that they concern. | None |
| 6. The company engage a professional shareholder services agent to handle shareholders meeting matters | ✓ | | The company has engaged a professional shareholder services agent to handle shareholders meeting matters. | None |
| 7. Information Disclosure (1) Establishment of a website where information on financial operations and corporate governance is disclosed. (2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference) (3) Does the Company announce and report the annual financial statement within two months after the end of the fiscal year, and announce and report the first, second and third quarter financial statements as well as the operating status of each month before the prescribed deadline? | ✓ | | (1) The company both Chinese and English website at http://www.klasergroup.com is constantly updated to provide the latest information. (2) The company has designated appropriate employees to disclose information and announcement at government website, MOPS: http://newmops.tse.com.tw | None |
| 8. Any Other Information Regarding Corporate Governance (including but not limited in employee rights and interests, employee care, investor relations, supplier relations and rights of Shareholders, professional development of the Board of Directors, Supervisors, and managerial officers, status of implementation of risk management policies and standards for measurement of risk, status of customer- protection policy implementation, and liability insurance provided by the Company to the Board of Directors and Supervisors) : | ✓ | | (1) The Company's directors and supervisors are all professional and engaged in relative business. The independent directors take the professional training course no less than 3 hours. The Company also provides information related to professional educational opportunities to all directors and supervisors. (2) Risk management policies and risk of the implementation of standards: Please refer to "Details of other important risks and response measures". (3) The implementation of the policy of the protection of consumers or customers: The Company has appointed responsible personnel for customer's complaint and product quality issue. (4) Liability Insurance provided by the Company for its Directors and Supervisors: The company has purchased liability insurance amounting to USD 3 million for its directors from Nov.5 2019 to Nov.5 2020. | None |
| 9. Please indicate the improvement of the results of the corporate governance evaluation issued by the Taiwan Stock Exchange Co., Ltd. and provide priority measures and solutions for those who have not yet improved: (1) Describes the implementation of the resolutions of the 2019 shareholders' meeting on the annual report. (2) The company has set up an audit committee since 2017. The annual work and operation of the audit committee have been disclosed in the 2019 annual report. (3) The reveals specific and clear dividend policies of the company have been disclosed in the 2019 annual report (4) The Company has established the procedure of evaluation of CPA's independence and have been disclosed in the 2019 annual report (5) The company expects to send the company's corporate governance Principles to the board of directors for approval on May 12, 2020 , and will upload MOPS and K Laser's web site after approved by the Board. | | | | |

Evaluation Criteria for Accountant Independence

| Item | | | Result |
|---|---|---|--------|
| Article 46 of the Certified Public Accountant Act | 1 | Does the appointed accountant agree to others to use his name to perform business 。 | None |
| | 2 | Whether the appointed accountant uses other accountants to carry out the business 。 | |
| | 3 | Whether the appointed accountant is employed by a person who is not qualified as an accountant to perform the accountant business | |
| | 4 | Whether the appointed accountant uses the accountant status as an unfair competition in industry and commerce 。 | |
| | 5 | Does the appointed accountant perform business on events of interest to him 。 | |
| | 6 | Whether the appointed accountant uses the accountant's name as the guarantor outside the accountant's business 。 | |
| | 7 | Whether the appointed accountant buys the movable or immovable property managed in the business 。 | |
| | 8 | Does the appointed accountant request, expire or accept illegal benefits or remuneration 。 | |

| | Item | | Result |
|---|------|---|--------|
| | 9 | Whether the appointed accountant solicited business by improper methods ° | |
| | 10 | Whether the accountant appointed is a publicity advertisement other than business opening, relocation, merger, entrusted by the client, and introduced by the accounting firm. | |
| | 11 | Has the appointed accountant disclosed the business secrets without the permission of the designated agency and the company? ° | |
| | 12 | Whether the accountant to be appointed is determined by other competent authorities to be sufficient to affect the reputation of the accountant | |
| Article 47 of the Certified Public Accountant Act | 1 | Whether the appointed accountant is currently employed by the company for regular work, receiving fixed salary or serving as director or supervisor ° | |
| | 2 | Whether the appointed accountant has served as a director, supervisor, manager or employee of the company or a staff member who has a significant influence on the visa case, but has not resigned for less than two years ° | |
| | 3 | Does the appointed accountant have a spouse, direct blood relationship, direct in-law relationship or second-in-law relationship with the person in charge or manager of the company? ° | |
| | 4 | Whether the appointed accountant, his spouse, and minor children have a relationship with the company to invest or share financial benefits. | |
| | 5 | Whether the appointed accountant, his spouse, and minor children have borrowed funds from the company. | |
| | 6 | Whether the appointed accountant performs management consulting or other non-visa business enough to affect independence ° | |
| | 7 | Whether the appointed accountant does not comply with the business event. The competent authority has rotated accountants, handled accounting affairs on behalf of others, or other regulations sufficient to affect independence ° | |

3.5 The composition, duties, and operation of the compensation committee

3.5.1 The compensation committee members' Professional Knowledge and Independence Information

| Qualification | Professional qualification requirements, together with at least five years work experience | | | Independence Status (Note 1) | | | | | | | | | | Number of other public companies concurrently serving as an Compensation Committee member | Note 2 |
|---------------------|--|---|--|------------------------------|---|---|---|---|---|---|---|---|----|---|--------|
| | An instructor or higher in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college, or university | A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company | Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | |
| Name | | | | | | | | | | | | | | | |
| Gen-Sen Chang-Hsieh | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | — |
| Cheng Sang Huang | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | — |
| Bi-Xin Huang | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | — |

Note 1:

- (1) Not an employee of the company, or any affiliates.
- (2) Not a director, supervisor of the company, or any of its affiliates. Except in the case of an independent director who is a company or its parent company, a subsidiary under this Act or a local law.
- (3) Not a individual shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the

person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.

- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.
- (6) Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company;
- (7) Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the company's chairman or CEO (or equivalent)
- (8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company
- (9) Other than serving as a compensation committee member of the company, not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, and the service provided is an "audit service" or a "non-audit service which total compensation within the recent two years exceeds NTD500,000"
- (10) Not been a person of any conditions defined in Article 30 of the Company Law

Note 2 : If the member of compensation committee is a director(excluding independent director), please state whether he/she conforms to "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter", Section 6.5.

3.5.2 Involved in the operation of the compensation committee

1. The Company's Compensation Committee is comprised of three persons.
2. Term for the Current Committee Members: 2017.05.26 to 2020.05.25. The Compensation Committee held 4 meeting in 2019:

| Name | Actual attendance number of times | Agency attendance number of times | Actual attendance | Remarks |
|--|-----------------------------------|-----------------------------------|-------------------|---------|
| Cheng Sang Huang | 4 | 0 | 100% | — |
| Gen-Sen Chang-Hsieh | 4 | 0 | 100% | — |
| Bi-Xin Huang | 4 | 0 | 100% | — |
| Other matters to be included : | | | | |
| 1. There was no suggestion recommended by the Compensation Committee not being accepted or being amended by the Board of Directors during the preceding fiscal year. | | | | |
| 2. There was no Compensation Committee member expressing opposition or reservation with respect to any Compensation Committee meeting during the preceding fiscal year, and no written record or written statement of related resolutions. | | | | |

3.6 Social responsibility

| Item | Implementation Status | | | Remark |
|---|-----------------------|---|--|--------|
| | Y | N | Description | |
| <p>1. Exercising Corporate Governance</p> <p>(1) The company adopted corporate social responsibility policies and systems, and its examination of the effectiveness of their implementation.</p> <p>(2) The company holds the corporate social responsibility training and education periodically.</p> <p>(3) The operational status of the unit established by the company with exclusive or concurrent responsibility for CSR matters. The higher-level management is authorized by the Board of Directors to handle the matter and report to the Board on its handling.</p> <p>(4) The company adopted a fair and reasonable salary and compensation policy, integrated CSR into employee performance evaluation system, and instituted a clear and effective reward and punitive system.</p> | ✓ | | <p>(1) Based on company operating ideal and prospect, to fulfill our social duty, the Board has approved the new by-law, Corporate Social Responsibility Policy . All of business operations follow up the by-laws and aggressively fulfill environment protection and energy saving.</p> <p>(2) The Company holds training for employees and introduces our corporate social responsibility philosophy.</p> <p>(3) The Company's Finance and Administration Division of the Company promotes the activities of Corporate Social Responsibility. The Company also establishes the by-laws about corporate governance, takes part in social welfare activities, and sets up the guidelines about environment protection and energy saving. Besides, it fulfills the relevant energy saving programs set by the authorities.</p> <p>(4) The Company establishes the rules and policy for employees' salary and compensation by consideration of industrial level and the performance of the employee. Through the training, company website, the Company make the announcement to the employees regarding the Company's business code, and encourage the employees to take part in those activities about social welfare and energy saving and also set up the employee's appraisal rules based on employee's performance and ethic.</p> | None |
| <p>2. Developing a Sustainable Environment</p> <p>(1) The Company endeavors to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment.</p> <p>(2) The Company establishes proper environmental management systems based on the characteristics of their industries.</p> <p>(3) The Company monitors the impact of climate change on its operations and should establish company strategies for energy conservation and carbon and greenhouse gas reduction.</p> | ✓ | | <p>(1) The Company establishes the relevant management process to improve the efficiency of resource utilization. In order for improving the utilization of water, the Company purchases the equipment and well maintained periodically, such as water chiller, and cooling towers, to enhance the recycle of water to reduce the consumption of carbon.</p> <p>(2) The Company has established the environment management system. The Company's manufacturing process does not cause the air pollution, the Company has been qualified and certified for water pollution control measure plans and have invested in equipment to handle the waste water in manufacturing.</p> <p>(3) The Company conducts several projects to reduce the impact on the environment within the daily operation, such as installation of LED light bulb, and paperless operation system.</p> | None |
| <p>3. Protecting Public Interest</p> <p>(1) The company has established the management methods and procedures, to comply with relevant regulations and International Covenant on Civil and Political Rights.</p> <p>(2) The Company has established an approach and channel for employee appealing and it is handled properly.</p> <p>(3) The company provides safe and healthy work environments for its employees, and organizes training on safety and health for its employees on a regular basis.</p> <p>(4) The Company has set up a system for the employees to communicate periodically and informed them through reasonable approaches about changes in operations that would cause a major impact.</p> <p>(5) The company has established an effective plan for the employees in training and career development.</p> | ✓ | | <p>(1) Pursue to the Labor Standards Law, the Labor Health Insurance Act, the Employees' Welfare Funds Act, and the relevant laws, the Company regulates the by-laws about human resources and fulfills them.</p> <p>(2) The procedures for employee appealing are included in the Company's Working Rule and the employee's appeals are well handled.</p> <p>(3) We have periodically conducted the fire safety inspection and maintained the equipment such as drinking fountains for employee's health. Employee must take part in labor insurance and health insurance and pay the insurance premium according to the relevant regulations. Employees have the benefits such as regular health inspection and on-job training, which are compensated by the Company. The Company provides the safe and healthy working environment to keep the employees concentrated on job.</p> <p>(4) In order to improve the labor relation and working efficiency, there are regular meetings for employee and employer as a way of communication.</p> <p>(5) Since employee is the most valuable assets to the Company, the Company has established the effective career development plan for employee.</p> | None |

| Item | Implementation Status | | | Remark |
|---|-----------------------|---|--|--------|
| | Y | N | Description | |
| <p>(6) In regards to R&D, purchases, production, operation, and procedures of service, the company has formulated policies that would protect consumers' rights, as well as procedures for appealing.</p> <p>(7) The Company has complied with regulations and international norms on marketing and marking for its products and services.</p> <p>(8) Before interacting with its suppliers, the Company has reviewed and assessed records of these suppliers in regards to whether they had negatively impacted the environment and society in the past.</p> <p>(9) The contract between the Company and its major suppliers included clauses of termination and removal of the contract should the suppliers be involved in violation of its CSR policies that cause a major impact to the environment and society.</p> | | | <p>(6) Regarding the protection of Customer's right, the Company has established relevant policy and creates the channel for customers to handle the customer's complaint on a timely basis.</p> <p>(7) The Company has complied with regulations and international norms on marketing and marking for its products and services.</p> <p>(8) The Company has reviewed and assessed records in regards to whether its suppliers had negatively impacted the environment and society in the past before interacting with them.</p> <p>(9) The contract between the Company and its major suppliers included clauses of termination and removal of the contract should the suppliers be involved in violation of its CSR policies that cause a major impact to the environment and society.</p> | |
| <p>4. Enhancing Information Disclosure</p> <p>(1) Status of disclosure on the company's website and MOPS of relevant and reliable information regarding corporate social responsibility.</p> | ✓ | | The Company has published the relevant materials about CSR on its website, http://www.klasergroup.com , and, in compliance with the Laws, has announced and declared them to improve information transparency. | None |
| 5. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: None | | | | |
| 6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: None | | | | |
| 7. If the products or corporate social responsibility reports have received assurance from external institutions, they should state so below: None | | | | |

Remark: Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons.

3.7 The state of the company's performance in the area of good faith management and the adoption of related measures.

| Item | Implementation Status | | | Remark |
|---|-----------------------|---|---|--------|
| | Y | N | Description | |
| <p>1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures</p> <p>(1) The Company discloses clearly for adopting ethical corporate management policies and procedures in its rules and external documents, and of the board of directors and the management in undertaking to rigorously and thoroughly enforce such policies.</p> <p>(2) The Company adopts a program to prevent unethical conduct, including its operational procedures, guidelines for ethical conduct, punishment of violence and complaint system.</p> <p>(3) The Company asserts, when establishing the program to prevent unethical conduct according to the article 7 of the Corporate Governance Best-Practice Principles for TSEC/ GTSM Listed Companies, to address which business activities within its business scope pose higher risk of unethical conduct, and to adopt preventive measures against it.</p> | ✓ | | <p>(1) The Company has clearly disclosed the ethical corporate management policies and procedures and the commitment of directors and the management in undertaking to rigorously and thoroughly enforce such policies in the Company's Memorandum and Articles, and external document. The Company establishes the by-law, Procedures for Verification and Disclosure of Material Information, and regulates the mechanism of processing and disclosure of material information. It prevents information from improper disclosure and assures the consistence and correctness of information disclosure to the public. Pursuant to Procedural Rules of Board Meeting of the Company, a Director may not participate in the discussion or vote in respect to any matter, in which such Director bears a personal interest which may conflict with and impair the interest of the Company; provided, however, that such Director may express his or her opinion and respond to inquiries. Such Director shall excuse him or herself during discussion and voting and may not exercise voting rights on behalf of other Directors.</p> <p>(2) The Company has adopted a program to prevent unethical conduct, including its operational procedures, guidelines for ethical conduct, punishment of violence and complaint system.</p> <p>(3) The Company has asserted, when establishing the program to prevent unethical conduct according to the article 7 of the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, to address which business activities within its business scope pose higher risk of unethical conduct, and to adopt preventive measures against it.</p> | None |
| <p>2. Corporate Conduct and Ethics Compliance Practice</p> <p>(1) The Company exerts in its business activities to evaluate the counterparty the record of unethical conduct, and to include ethical conduct clauses in its business contracts.</p> <p>(2) The Company establishes and operates a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management under the Board of Directors, and periodically report to the Board of Directors.</p> <p>(3) The Company adopts the policies for preventing conflicts of interest and offering appropriate channels for stating opinions, and the operation thereof.</p> <p>(4) The company establishes and operates the effective accounting systems and internal control systems for the enforcement of ethical corporate management, and of audits periodically by internal auditors or accounting firms.</p> <p>(5) The company holds internal or external education and training operations periodically.</p> | ✓ | | <p>(1) The Company has exerted in its business activities to evaluate the counterparty the record of unethical conduct, and to include ethical conduct clauses in its business contracts.</p> <p>(2) The Company has established and operates a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management under the Board of Directors, and periodically report to the Board of Directors.</p> <p>(3) The Company has adopted the policies for preventing conflicts of interest and offering appropriate channels for stating opinions, and the operation thereof.</p> <p>(4) The company has established and operates the effective accounting systems and internal control systems for the enforcement of ethical corporate management, and of audits periodically by internal auditors or accounting firms.</p> <p>(5) The company has hold internal or external education and training operations periodically.</p> | None |

| Item | Implementation Status | | | Remark |
|---|-----------------------|---|---|--------|
| | Y | N | Description | |
| 3. Status of reporting system for the company (1) The Company has adopted a system for reporting and rewarding, established a channel convenient for reporting, and assigned appropriate staffs responsible for handling issues for the reported parties. (2) The Company has adopted a standard operating procedure for investigation of the reported matters, as well as relevant rules regarding confidentiality. (3) The Company has adopted measures for protecting reporting parties from inappropriate treatment because of their acts of reporting | ✓ | | The Company has established the by-law, Work Rules, and regulates regarding the reporting system, and protects the reporting parties from inappropriate treatment. | None |
| 4. Information Disclosure (1) To set up a corporate website or other information disclosure channel that publishes information relating to company's corporate conduct and ethics. | ✓ | | The Company has published the relevant materials about company's corporate conduct and ethics on its website, http://www.klasergroup.com . | None |
| 5. If the company has established corporate governance policies based on TSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation : None | | | | |
| 6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy) : None | | | | |

Remark: Deviations from "corporate governance policies based on TSE Corporate Conduct and Ethics Best Practice Principles" and reasons.

3.8 For information on KLT's Guidelines for Corporate Governance and other codes of practice, please refer to the Company's website at <http://www.klasergroup.com>

3.9 Execution of Internal Control System

3.9.1 Statement of Internal Control

Statement of Internal Control

Date: Mar. 30, 2020

Based on the findings of a self-assessment, K Laser Technology Inc. states the following with regard to its internal control system during the period from January 1, 2019 to December 31, 2019:

1. KLT is fully aware the establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. KLT has established such a system aimed at providing reasonable assurance regarding the achievement of objectives to effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of KLT contains self-monitoring mechanisms, and KLT takes corrective actions whenever a deficiency is identified.
3. KLT evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (here in below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment and response, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. KLT has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, KLT believes that, during the year 2019, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. The Statement will be an integral part of KLT's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on Mar. 30, 2020, with zero of the seven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

K Laser Technology Inc.



Alex Kuo,
Chairman



Alex Kuo,
General Manager



3.9.2 External auditors' opinion on the Company's internal control : None.

3.10 Breach of Corporate Laws, Fines and Current Status :

In 2019, the date of publication of the annual report, the company fully complied with relevant laws and regulations. Only the 26th repurchase of treasury stocks shall not be a case of quotation violations before the start of trading hours, and will be fined NT \$ 240,000. The company has strengthened publicity and communication.

3.11 Major Decisions of Shareholder Meetings and Board Meetings

3.11.1 Board Meetings

(1) The 12th Meeting of the 11th Term of Board of Directors

Date: 2019.05.10

1. Approved 2019 Q1 Financial Statements.
2. Approved the financial officer changed.

(2) The 13th Meeting of the 11th Term of Board of Directors

Date: 2018.08.14

1. Approved 2019 Q2 Financial Statements.
2. Approved the distribution proposal for 2019 Q2 dividend.

(3) The 14th Meeting of the 11th Term of Board of Directors

Date: 2019.11.08

1. Approved 2019 Q3 Financial Statements.
2. Approved the distribution proposal for 2019 Q3 dividend.
3. Approved the company to set up R & D center case

(4) The 15th Meeting of the 11th Term of Board of Directors

Date: 2019.12.17

1. Approved the 26th time to buy back share transfer employees and stipulated the transfer base date.

(5) The 16th Meeting of the 11th Term of Board of Directors

Date: 2020.03.10

1. Approved the convention of 2020 Annual General Meeting.

(6) The 2st Extraordinary Meeting of the 11th Term of Board of Directors

Date: 2020.03.13

1. Approved buy back 6,000 thousand shares of treasury stocks.

(7) The 17th Meeting of the 11th Term of Board of Directors

Date: 2020.03.30

1. Approved the changed and independence assessment of CPA.
2. Approved the amendments of 2020 Annual General Meeting.
3. Approved 2019 Operating Report and 2019 Financial Statements.

3.11.2 Shareholder Meetings

KLTW held 2019 Annual Shareholders' Meeting in Hsinchu, Taiwan on May 31, 2019. At the meeting, shareholders present in person or by proxy approved the following resolutions:

(1) Recognition of 2018 Operating Report and 2018 Financial Statements.

The consolidated revenue for the year was approximately NT \$ 5,202,250 thousand, the net profit after tax was approximately NT \$ 24,455 thousand, and the earnings per share was NT \$ 0.41.

(2) Recognition of the Distribution of 2018 Earning.

Implementation Status: The target date fixed by the company for distribution of dividends is 2019.07.03, and the payment date is 2019.07.18 (\$0.41 cash dividend per share).

(3) The revisions to the Articles of Incorporation

(4) The revisions to the following KLTW policies:

A. Procedures for “Asset Acquisition & Disposal Procedures.” and “ Policies and Procedures for Financial Derivatives Transactions.”

B.Procedures for “Procedures for Endorsements & Guarantees.” and “Procedures for Lending Funds to Others.”.

C.Procedures for “Procedures of Subsidiary for Lending Funds to Others and Endorsement Guarantee. “

3.12 Board of Director or Supervisor expressing a dissenting opinion with respect to a material resolution passed by the Board of Directors and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof : None

3.13 A summary of resignations and dismissals, of the company's chairman, general manager, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development officer :

| Title | Name | Employed Date | Date of Termination | Reasons |
|------------------------|--------------|---------------|---------------------|---------------------------|
| Director, R&D Division | Bingo Lo | 2012.08.30 | 2019/08/12 | Resignation |
| Director, R&D Division | Kung Lin liu | 2019.08.12 | - | - |
| Financial officer | Vincent Tsai | 2016.05.13 | 2019.05.10 | Internal personal changes |
| Financial officer | Teresa Huang | 2019.05.10 | - | Internal personal changes |

4. Information on CPA professional fees

4.1 Information on professional fees

| Name of CPA Firm | CPA | | Audit Period | Remark |
|-------------------|--------------|----------------|-----------------------|--|
| Deloitte & Touche | Yi-Min Huang | Guo-Tian Hong. | 2019.01.01~2019.09.30 | Due to its internal personal changes, Deloitte & Touche updated the audit partners |
| Deloitte & Touche | Wen-Yea Shyu | Yi-Min Huang | 2019.10.01~2019.12.31 | |

Unit : NT\$ Thousands

| Amount \ Item | | Audit fees | Non-audit fees | Total |
|---------------|------------------------|------------|----------------|-------|
| 1 | <2,000 | | V | |
| 2 | 2,000 ≤ amount <4,000 | | | |
| 3 | 4,000 ≤ amount <6,000 | | | |
| 4 | 6,000 ≤ amount <8,000 | V | | V |
| 5 | 8,000 ≤ amount <10,000 | | | |
| 6 | ≥10,000 | | | |

Unit : NT\$ Thousands

| Name of CPA Firm | CPA | Audit fees | Non-audit fees | | | | | Audit Period | Remark |
|------------------|---------------|------------|----------------|----------------------|----------------|-------|-------|-----------------------|---------|
| | | | System Design | Company Registration | Human Resource | Other | Total | | |
| Deloitte& Touche | Yi-Min Huang | 6,600 | | | | 309 | 309 | 2019.01.01~2019.09.30 | (Note1) |
| | Guo-Tian Hong | | | | | | | | |
| | Wen-Yea Shyu | | | | | | | 2019.10.01~2019.12.31 | |
| | Yi-Min Huang | | | | | | | | |

Note1: The "other" non-audit public expense amounts to 25% of the total amount of non-audit public expense. Its services include: 1. Transfer pricing report 2. Business tax direct deduction method public expense, business tax administrative public expense 3. Non-supervisor salary information check public expense

4.2 Non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and to any affiliated enterprise of such accounting firm are equivalent to one quarter or more: None.

4.3 Changes the accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous year: None.

4.4 The audit fees paid for the current year are lower than those for the previous fiscal year by 15 percent or more: None.

5. Information on replacement of CPA:

5.1 Former CPAs

| | | | | |
|--|--------------------------------------|--|---------------|---------------|
| Date of Change | | Approved by BOD on March 30, 2020 | | |
| Reasons and Explanation of Changes | | Due to its internal personal changes, Deloitte & Touche updated the audit partners for KLT from Yi-Min Huang and Guo-Tian Hong to Wen-Yea Shyu and Yi-Min Huang in 2019. | | |
| State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs | Client | | CPA | Consignor |
| | Status | | | |
| | Appointment terminated automatically | | Not available | |
| | | Appointment rejected (discontinued) | | Not available |
| The Opinions other than Unmodified Opinion Issued in the Last Two Years and the Reasons for the Said Opinions (Note) | | None | | |
| Is there any Disagreement in Opinion with the Issuer | Yes | Accounting principle or practice | | |
| | | Disclosure of financial statements | | |
| | | Auditing scope or procedures | | |
| | | Others | | |
| | No | V | | |
| | | Explanation | | |
| Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards) | | None | | |

5.2 Successor CPAs

| | |
|--|-----------------------------------|
| Accounting Firm | Deloitte & Touche |
| CPA | Wen-Yea Shyu and Yi-Min Huang. |
| Date of Engagement | Approved by BOD on March 30, 2020 |
| Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report | None |
| Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions | None |

5.3 The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards: None.

6. Chairman, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm, the name and position of the person, and the period during which the position was held, shall be disclosed: None.
7. Information on Net Changes in Shareholding and Net Changes in Shares Pledged by Directors, Supervisors, Managers and Shareholders of More Than 10% Shareholding

7.1 Change in Shareholding of Directors, Supervisors, Officers And Major Shareholders

Unit : Shares

| Title | Name | 2019 | | Mar. 30, 2020 | |
|--------------------------|---------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| | | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Chairman & GM | Alex Kuo | 170,000 | — | 320,000 | — |
| Director | Daniel Kuo | (320,000) | — | 394,000 | — |
| Director | Lisa Hsu | 75,000 | — | 162,214 | — |
| Director | C.L Kuo | — | — | — | — |
| Director | Cheng Sang Huang | — | — | — | — |
| Director | Gen-Sen Chang-Hsieh | — | — | — | — |
| Director | Bi-Xin Huang | — | — | — | — |
| Director, R&D Division | Kung Lin liu | — | — | — | — |
| Manager, Auditing Office | Yumei Tsai | 13,000 | — | 12,000 | — |
| CFO& Financial officer | Teresa Huang | 30,484 | — | 160,000 | — |
| Accounting officer | Serena Hung | 32,000 | — | 50,000 | — |

7.2 Status of Transfer of Shareholding to related person or Shareholding Pledge to related person : None

8. The company's 10 largest shareholders and relationship

2020.03.30

| Name | Holding shares | | Spouse & Minor Shareholding | | Shareholding Entitled Other Name | | Relationship | |
|---|----------------|-------|-----------------------------|-------|----------------------------------|---|--------------|--------------|
| | Shares | % | Shares | % | Shares | % | Name | Relationship |
| Alex Kuo | 10,997,756 | 6.90% | 1,040,194 | 0.65% | — | — | — | — |
| K Laser Technology Inc. Treasury shares account | 7,099,000 | 4.46% | — | — | — | — | — | — |
| Mei Ling Ho | 3,683,259 | 2.31% | — | — | — | — | — | — |
| Guei Tang Shin | 3,454,196 | 2.17% | — | — | — | — | — | — |
| Yu Ren Yuan | 2,896,890 | 1.82% | — | — | — | — | — | — |
| Insight Medical Solutions Inc. | 2,500,000 | 1.57% | — | — | — | — | — | — |
| Pei Jun Chen | 1,614,000 | 1.01% | — | — | — | — | — | — |
| Standard Chartered Escrow Credit Suisse Securities Investment Account | 1,542,000 | 0.97% | — | — | — | — | — | — |
| Kun Long Wang | 1,450,000 | 0.91% | — | — | — | — | — | — |
| Jhih-Cheng Zeng | 1,439,000 | 0.90% | — | — | — | — | — | — |

9. Total number of shares and total equity stake held in the same enterprise by the Company, its Directors and Supervisors, Managers directly or indirectly

Unit : Shares/% Mar.30, 2020

| Re-invested Business (Long-Term Investment) | Direct Investment by the Company (1) | | Invested Business Directly or Indirectly Controlled by Director, Supervisor, and Manager (2) | | Total Investments (1)+(2) | |
|--|---|------|--|-----|------------------------------|------|
| | Shares | % | Shares | % | Shares | % |
| K Laser China Group Co., Ltd. | 21,289,005 | 100% | — | — | 21,289,005 | 100% |
| K Laser International Co., Ltd. | 20,361,462 | 100% | — | — | 20,361,462 | 100% |
| Optivision Technology Inc. | 22,086,420 | 46% | 427,873 | 1% | 22,514,293 | 47% |
| iWin Technology Co., Ltd. | 157,545 | 49% | 163,975 | 51% | 321,520 | 100% |
| Vicome Corp. | 2,661,237 | 33% | — | — | 2,661,237 | 33% |
| Everest Display Inc. | 13,187,334 | 80% | 100,000 | 1% | 13,287,334 | 80% |
| Insight Medical Solutions Inc. | 8,915,264 | 44% | 766,000 | 3% | 9,681,264 | 44% |

Capital Raising Status

1. Capital and Shares

1.1 Source of Capital

1.1-1 Source of Capital

2020.03.30 / Unit : Thousand Shares ; NT\$ Thousand (Except Issuance Price)

| Year Month | Price | Authorized Capital | | Issued Capital | | Remarks | | | |
|---------------|-------|--------------------|-----------|----------------|-----------|--------------------|---------|--|--|
| | | Shares | Amount | Shares | Amount | Sources of Capital | | Capital Increase by Assets Other than Cash | Other (Approval Document Number) |
| 2015.05 | 10 | 200,000 | 2,000,000 | 157,166 | 1,571,665 | Treasury shares | 170,000 | - | 竹商字第1040012090號 |
| 2015.07 | 10 | 200,000 | 2,000,000 | 147,166 | 1,471,665 | Treasury shares | 100,000 | - | 竹商字第1040020998號 |
| 2015.11 | 10 | 200,000 | 2,000,000 | 132,466 | 1,324,665 | Treasury shares | 147,000 | - | 竹商字第1040034261號 |
| 2017.03 | 10 | 200,000 | 2,000,000 | 133,883 | 1,338,825 | CB Convert | 14,160 | - | 竹商字第1060007841號 |
| 2017.12 | 10 | 200,000 | 2,000,000 | 165,325 | 1,653,246 | CB Convert | 314,421 | - | 竹商字第1061000188號 |
| 2018.12 | 10 | 200,000 | 2,000,000 | 159,325 | 1,593,246 | Treasury shares | 60,000 | - | 竹商字第1070035038號 |

Unit : Shares, 2020.03.30

Unit - Shares, 2020-01-01

| Share Type | Authorized Capital | | | | | Remarks |
|---------------|--------------------|------------|--------------|------------------|-------------|---------|
| | Issued Shares | | | Un-Issued Shares | Total | |
| | Listed | Non-Listed | Total (Note) | | | |
| Common Stocks | 159,324,631 | - | 159,324,631 | 40,675,369 | 200,000,000 | -- |

Note : Includes 7,099,000 shares of Treasury shares that have not yet been transferred.

1.1-2 Information of approval has been granted to offer : None.

1.2 Shareholder Structure

2020.03.30

| Structure Volume | Government Agencies | Financial Institution | Other Legal Entities | Foreign Institutions & Individuals | Domestic Individuals | Total |
|------------------------|------------------------|--------------------------|-------------------------|--|-------------------------|-------------|
| Number of Shareholders | 0 | 2 | 130 | 54 | 23,065 | 23,251 |
| Shareholding (Shares) | 0 | 30,137 | 11,044,970 | 5,835,431 | 142,414,093 | 159,324,631 |
| Holding Percentage | 0.00% | 0.02% | 6.93% | 3.66% | 89.39% | 100.00% |

1.3 Distribution Profile of Shareholder Ownership

2020.03.30

| Levels of Shareholder Ownership | Number of Shareholders | Total Shares Owned | Ownership Percentage% |
|---------------------------------|------------------------|--------------------|-----------------------|
| 1 – 999 | 13,127 | 528,362 | 0.33% |
| 1,000 - 5,000 | 6,738 | 15,533,715 | 9.75% |
| 5,001 - 10,000 | 1,536 | 12,458,072 | 7.82% |
| 10,001 - 15,000 | 466 | 6,024,322 | 3.78% |
| 15,001 - 20,000 | 372 | 7,017,580 | 4.41% |
| 20,001 - 30,000 | 337 | 8,791,532 | 5.52% |
| 30,001 - 40,000 | 162 | 5,883,095 | 3.69% |
| 40,001 - 50,000 | 125 | 5,850,439 | 3.67% |
| 50,001 - 100,000 | 206 | 14,762,234 | 9.27% |
| 100,001 - 200,000 | 98 | 13,946,487 | 8.75% |
| 200,001 - 400,000 | 48 | 13,400,086 | 8.41% |
| 400,001 - 600,000 | 13 | 6,458,987 | 4.05% |
| 600,001 - 800,000 | 4 | 2,821,197 | 1.77% |
| 800,001 - 1,000,000 | 5 | 4,429,799 | 2.78% |
| Over 1,000,001 | 14 | 41,418,724 | 26.00% |
| Total | 23,251 | 159,324,631 | 100.00% |

1.4 List of Major Shareholders

2020.03.30

| Major Shareholders | Shares | Total Shares Owned | Ownership Percentage% |
|---|--------|--------------------|-----------------------|
| Alex Kuo | | 10,997,756 | 6.90% |
| K Laser Technology Inc. Treasury shares account | | 7,099,000 | 4.46% |
| Mei Ling Ho | | 3,683,259 | 2.31% |
| Guei Tang Shin | | 3,454,196 | 2.17% |
| Yu Ren Yuan | | 2,896,890 | 1.82% |
| Insight Medical Solutions Inc. | | 2,500,000 | 1.57% |
| Pei Jun Chen | | 1,614,000 | 1.01% |
| Standard Chartered Escrow Credit Suisse Securities Investment Account | | 1,542,000 | 0.97% |
| Kun Long Wang | | 1,450,000 | 0.91% |
| Jhih-Cheng Zeng | | 1,439,000 | 0.90% |

1.5 Market Price, Net Worth, Earnings, Dividends Per Share and Other Data

Unit : NT\$; Thousand Shares

| Items | | Year | 2018 | 2019 | MAR 31,2020 |
|----------------------------------|--|-------------------|---------|---------|-------------|
| Market Price Per Share | Highest | | 17.75 | 25.35 | 19.90 |
| | Lowest | | 11.25 | 12.85 | 11.25 |
| | Average | | 14.71 | 17.92 | 15.91 |
| Net Worth Per Share | Before Distribution | | 16.64 | 15.79 | — |
| | After Distribution | | 16.26 | 15.79 | — |
| Earnings Per Share | Weighted Average Common Shares Outstanding | | 161,450 | 152,102 | — |
| | Earnings Per Share | | 0.41 | (0.79) | — |
| Dividends Per Share (Note) | Cash Dividends | | 0.41 | — | — |
| | Stock Dividends | Retained Earnings | — | — | — |
| | | Capital Surplus | — | — | — |
| | Accumulated unpaid dividend | | — | — | — |
| Analysis of Return on Investment | Price/Earnings Ratio | | 35.88 | — | — |
| | Price/Dividends Ratio | | 35.88 | — | — |
| | Cash Dividends Yield Rate | | 2.79% | — | — |

Note : The earning distribution for year 2019 has been approved by the Broad meeting, but it hasn't been approved by the General Shareholders' Meeting.

1.6 Dividend Policy and Status

1.6-1 Dividend Policy

If there is a surplus in the company's annual final accounts, tax should be paid first to make up for the previous losses. The second 10% is the statutory surplus reserve, but this is not the limit when the statutory surplus reserve has reached the company's paid-in capital; otherwise The special surplus reserve is listed according to the company's operating needs and legal requirements. If there is a surplus and unearned surplus at the same period, the board of directors plans to submit a surplus distribution plan to the shareholders' meeting for distribution.

The company's dividend policy is based on the company law and the company's articles of association, and is determined according to the company's capital and financial structure, operating status, surplus, and industry characteristics and cycles. The distribution of distributable surplus depends on the future capital expenditure and working capital planning, with cash dividends as the priority, and stock dividends are also distributed, but the stock dividend distribution ratio is limited to 50% of the total dividend. The aforementioned conditions, timing, amount, and types of retained earnings and dividends can be adjusted at an appropriate time based on the need to respond to changes in the economic and industrial climate, and considering the company's future development needs and profitability, but there are many cash dividends. The target of 10% of the allocable surplus in the current year.

1.6-2 Proposed Distribution of Dividend

The proposal for the distribution of 2019 profit and loss appropriation was passed at the meeting of the Board of Directors on 2020.03.30. The proposal for a profit and loss appropriation will be discussed at the annual shareholders' meeting on 2020.05.28.

1.7 Impact of Stock Dividends on Operation Results and EPS : Not Applicable

1.8 Employee, Director, and Supervisor Compensation

1.8-1 Company Policy

In accordance with the Company's Articles of Incorporation, the Company appropriates 4% to 8% and no more than 2% of income before tax prior to deduction of remuneration to employees, directors for remuneration to employees and remuneration to directors, respectively, in accordance with the proposal submitted by the Board of Directors, for approval at a shareholders' meeting. If the Company has accumulated deficit, the profit shall first be set aside to offset losses, and then the remaining profit shall be distributed as remuneration to employees, directors. The employees of subsidiaries who meet certain conditions can receive the remuneration.

1.8-2 If the difference between the proposed distribution and actual distribution on employee compensation and shares and directors and supervisor compensation, the accounting will follow the principle described below :

Pursuant to the Company's Memorandum and Articles of Association and refer to the actual distribution of compensation in the past, the Company estimates the proposed distribution of employee, director, and supervisor compensation. If there are the differences between the proposed and actual distribution, the difference will be estimated and listed in the coming income statement.

1.8-3 Information Regarding the Board of Directors Proposal for Appropriation of Employee Bonus etc :

Unit : NT\$; Thousand

| Item \ Amount | Cash | Stock | Difference between Proposed and Actual Distribution |
|-----------------------|------|-------|---|
| Employee Compensation | 0 | 0 | 0 |
| Director Compensation | 0 | 0 | 0 |

1.8-4 Status of Employee, Director, and Supervisor Compensation from 2018 Retained Earnings are as Follows:

In 2018 the proposed distribution of employee, director, and supervisor compensation are NT\$6,560K and 1,640K that no difference between proposed and actual distribution.

1.9 Share Buy-Back(Completed) :

2020.03.30 / NT\$

| Batch Order | 24th | 25th | 26th |
|---|-----------------------------------|--|-----------------------------------|
| Purpose of buy-back | Transfer of shares to employees | Maintain the company's credit and shareholders' equity | Transfer of shares to employees |
| Timeframe of buy-back | 2017/08/10~2017/10/06 | 2018/07/17~2018/09/14 | 2018/11/12~2019/01/11 |
| Price range | \$10.68~22.83 | 9.73~22.51 元 | 8.65~18.78 元 |
| Class, quantity of shares bought back | common stocks 5,000,000 shares | common stocks 6,000,000 shares | common stocks 6,000,000 shares |
| Value of shares bought-back | \$ 78,021 K | \$ 88,356 K | \$ 79,419 K |
| The ratio of the quantity bought back to the quantity bought back | 100% | 100% | 100% |
| Shares sold/transferred | common stocks 5,000,000 shares | common stocks 6,000,000 shares | common stocks 2,905,000 shares |
| Accumulated number of company shares held | - | - | common stocks 3,095,000 shares |
| Percentage of total company shares held | - | - | 1.94% |

1.1 Share Buy-Back(Executor) :

| 2020.03.30 / NT\$ | |
|---|---------------------------------|
| Batch Order | 27th |
| Purpose of buy-back | Transfer of shares to employees |
| Class of shares bought back | common stocks |
| Maximum amount of shares repurchased | 9.10~24.31 元 |
| Period of scheduled buyback | 2020/03/16--2020/05/15 |
| Quantity to buy back | common stocks 6,000,000 shares |
| Price range | 9.10~24.31 元 |
| Class, quantity of shares bought back | common stocks 4,004,000 shares |
| Value of shares bought-back | 48,930 仟元 |
| The ratio of the quantity bought back to the quantity bought back | 66.73% |

2. Issuance of Corporate Bonds

2.1 Issuance of Corporate Bonds: None

2.2 Corporate Bonds information: None

3. Status of Preferred Shares : None.

4. Status of Overseas Depository Certificate : None.

5. Issuance of Employee Stock Option Plan (ESOP) : None.

6. Issuance of New Restricted Employee Shares : None.

7. Status of New Share Issuance in Connection with Mergers and Acquisitions : None.

8. Financing Plans and Implementation : None

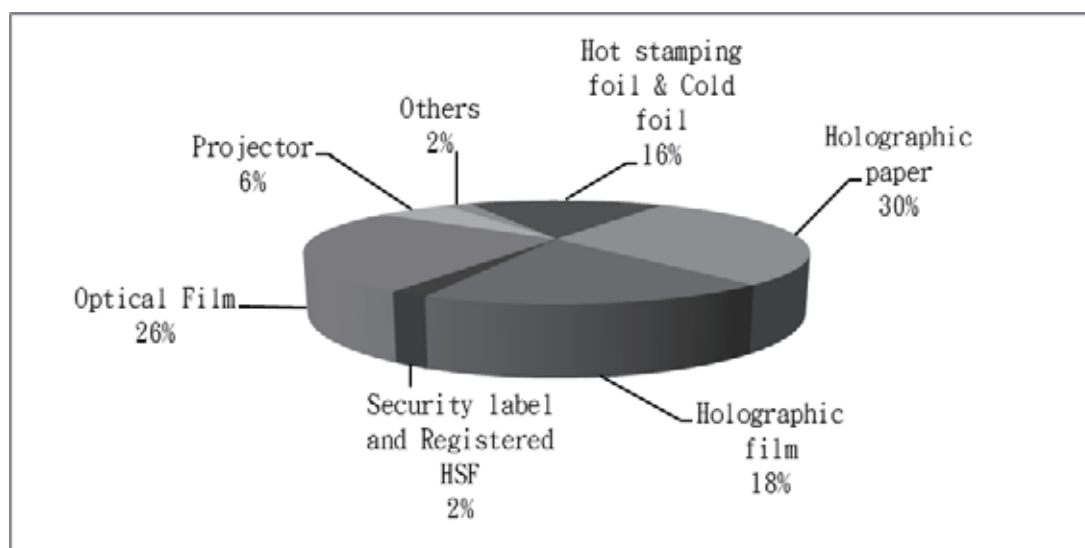
Operational Highlights

1. Business Activities

1.1 Business Scope

1.1-1 Operation Items : The company engages in the research and development, production and sales of holographic products. The major holographic products are holographic film, hot stamping foil, cold foil, holographic paper, security label, optical films and etc.

1.1-2 Major Products and Sales Percentage :



1.1-3 Current products:

- A. Holographic PET film
- B. Holographic PVC film
- C. Holographic OPP film
- D. Holographic paper
- E. Holographic Transfer Film
- F. Holographic Security Label
- G. Hot Stamping Foil
- H. Register Hot Stamping Foil
- I. Cold Foil
- J. UV Fresnel Lens
- K. Optical Film

1.1-4 New products in plan :

- A. Lenticular film
- B. To use Recycled PET material (RPET) to produce transfer film, hot stamping and cold foil.

1.2. Industry Overview

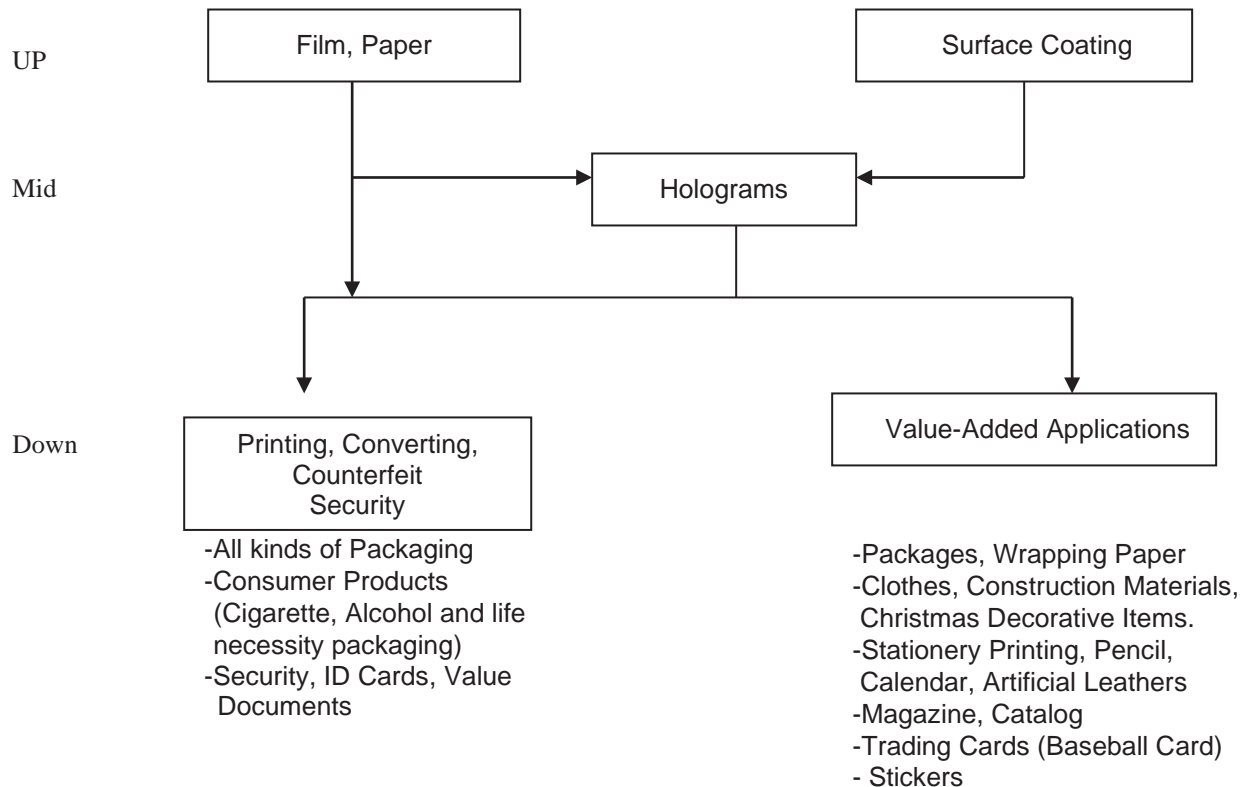
1.2-1 Present Industry Situation and Development Plan

Current Status: Cigarette packaging remains the world's largest market using holographic film, followed by toothpaste box and home & personal care packaging market. These two markets are still considered stable but the rest of the market might fluctuate based on the market economy situation. In order to maintain the market share, we will approach brand owner and

provide them with total packaging design concept and solution.

Development: Holographic industry is highly competitive and already categorized in Red Ocean Market, especially, in packaging market have been lost in interest for using holographic material. The demand for 1.6m true seamless rainbow is expected to grow and the true seamless UV Fresnel lens product will bring K laser brand to lead the market at frontier. In addition, environmental issues are fermented, and the demand for holographic transfer film and transfer paper on home & personal care packaging will continue to grow in 2020.

1.2-2 The Relationship Between Up-, Mid-, and Down-Stream Supply Chain Services



PET, OPP, PVC films and paper are the most common carriers of holograms. We have secured steady supplies of films from NanYa Plastics and Shinkong Synthetic Fibers Corporation, and papers from Yuen Foong Co., Ltd etc. The raw materials may affect the quality of hologram embossing. On the other hand, customers' requirements for material strength and temperature resistance as well as production speed are also crucial. In many cases, we have developed very close partnerships with customers and produced highly anti-counterfeiting and value-added packages.

Vertical integration will be a trend in the industry. Some hologram manufacturers begin investing in coating business to produce the materials for hologram embossing. At the same time, film suppliers are also developing materials that can be used for hologram embossing without coating. Some converters have also purchased embossing machines to produce holographic materials themselves.

1.2-3 Product Development Trends & Competition

1. Development trends:

- A. The combination of holographic and Fresnel Lens effect will be the trend for customized registered printing.
- B. 800mm and above holographic film will be the mainstream product for group sales revenue.
- C. The sales for Tru seamless(TSL) Fresnel Lens in China and Taiwan are growing and it is

expected to be the new era product.

- D. Sales on transfer film and transfer board are expected to increase in 2020 for non-tobacco packaging.

2. Competitive scenario:

- A. Major international competitors for transfer film are from India. K Laser keeps improving the product competitiveness in order to widen the gap with the competitors,
- B. Chinese and Indian competitors have the low-cost advantages, whereas, K Laser has the true seamless and brighter holographic advantages.
- C. True seamless UV Fresnel lens is the exclusive product in market, and it will continue to be the main promoted products.
- D. Holographic PVC product is shrinking due to the massive competition and environmental concern.

1.3 Technology and R&D Highlights

1.3-1 R&D Expenditures of K Laser

Unit : NT\$ Thousands

| Year | 2018 | 2019 |
|------------------|---------|---------|
| R&D Expenditures | 253,905 | 248,527 |

1.3-2 R&D Achievements and Plans for the Future

According to the market request, the Company develops high value-add product with aesthetic and high security features to achieve technology innovation, quality improvement and wide range of product application. The Company also integrates and develops the upstream and downstream process technology, and improves resolution and design ability.

The technique Road-Map, R&D release following new Tech. and new Product in this year:

- A. Origination Technology:
(a) 1 Meter seamless rainbow origination technology (b) 3D relief (c) Drum Fresnel lens origination technology
- B. New Product:
(a) True Seamless products (b) Lens effect film (c) UV emboss related products
(d) Lens effect hot stamping foil (e) Lens effect cold foil (f) Lens effect transfer film (g) Lens effect Nylon film
- C. Equipment Development:
(a) 1 Meter seamless optical production machine (b) 1 Meter drum electroforming machine
(c) UV drum process facilities (d) Film to Film Embossing machine

R&D Strategy:

- A. Combine supplies' and customer's technology, develop more value and more tamper function products.
- B. Developing Seamless holographic origination technology and production process.
- C. Developing high precision coating technology, recipe and process, to promote products' application and control products' quality efficiently.
- D. Developing the optical effect origination for the electric products application.
- E. Developing UV embossing process combine deep grating and holographic effects.
- F. Developing aesthetic and high security technique to improve R&D ability.
- G. Developing holographic high temperature resistant hot stamping foil to enhance our competitiveness on paper anti-counterfeit market.
- H. Developing holographic cold foil for soft tube package to provide various color choices for soft packaging.
- I. Developing Lens effect film and foil for new application.

1.4. Long and Short Term Business Plan

1.4-1 Long Term Business Plan

The Company has established International Business Unit to integrate the Group resources and to plan for global sales and marketing activities. Business Unit will responsible for the centralized product planning and global sales & marketing strategies in order to expand the global business and to reduce the China market dependence.

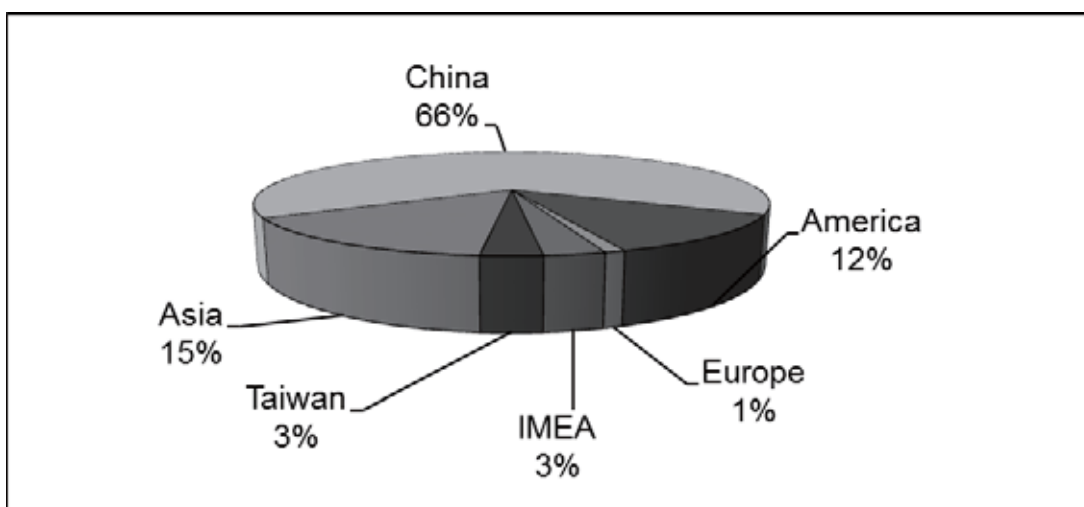
1.4-2 Short Term Business Plan

- A. Taiwan Market: Marketing strategy persists to cooperation with brand and designing company; and developing opportunity for specific security label market. Maintain service existing client.
- B. China Market: To maintain and service the current cigarette packaging customers. Seeking and developing orders for cosmetic & personal care packaging and label products through attending major exhibition in China.
- C. Asia Market: To increase India factory production capacity for better price advantages. Seeking and developing market network for SEA, Vietnam, Malaysia, Philippine. Continuing to build Indonesia subsidiaries.
- D. US Market: To secure the cold foil business and to further develop the business on laminating and self-adhesive market. Targeting Brazil for the south America market, seeking for appropriate sales channel and promote laminated film and cold foil products
- E. Europe Market: It is a matured PET laminating market and the focus will be to actively promote transfer film. .

2. Marketing and Sales Conditions

2.1 Market Analysis

2.1-1 Major Sales Regions :



2.1-2 Future Market Supply, Demand and Growth Potential

1. Global hologram market and industry overview

Currently, China is the biggest market in Holographic industry in term of sales volume, and followed by America, Europe and Asia (excluding China). With the awareness of environmental protection and EU new packaging regulation to be imposed on 2025, the demand for transfer film is expected to grow yearly. K laser produces competitive transfer film and this will help in the sales growth.

2. Mainland China market

In China, holographic material is mainly used on cigarette and liqueur packaging. However, owing to the policy of fighting extravagance, especially for the liqueur and cigarette packaging,

the growth rate in this market has slow down. To maintain the market share, developing with consumer product Brand Company will be prioritized.

2.1-3 Factors Relating to Future Development of KLT

1. Favorable Factors (Competitive Niche)

- A. With the rising of environmental concern, the demand of transfer film and transfer board kept increasing. K Laser is competitive in term of quality and pricing.
- B. The development of 1.6m wide rainbow film will help to reduce the production cost and to create new market application
- C. Through group integration, the company adapts centralized/batch production strategy to reduce the production cost and keep from market penetration without cutting margin.
- D. With the installation of new origination machine in 2019, K Laser can support customers with total printing and packaging solutions in shorter lead time.
- E. The newly established Commercial Design department continues to launch eye-catching printing samples. It also helps to develop customers from the packaging design company.

2. Threaten and Adaptive Strategy

- A. The demand for cigarette and alcohol has dropped, this caused the shrinkage of the market.
Response strategy: to develop home & personal care packaging and label printing customers.
- B. Holographic effect has long been in the market, consumers have lost interest on the design visual effect.
Response strategy: Introducing new holographic effect product into market by using new optical holographic equipment. Actively promoting UV Fresnel lens to the market
- C. Price War- Made in India
Response strategy: The Company has taken a number of steps by developing substitute materials, increasing product efficiency, and focusing on the new seamless processes to get rid of the threat of competitors.

2.2 Major Applications of Products & Product Manufacturing Process

2.2-1 Applications of Major Processes

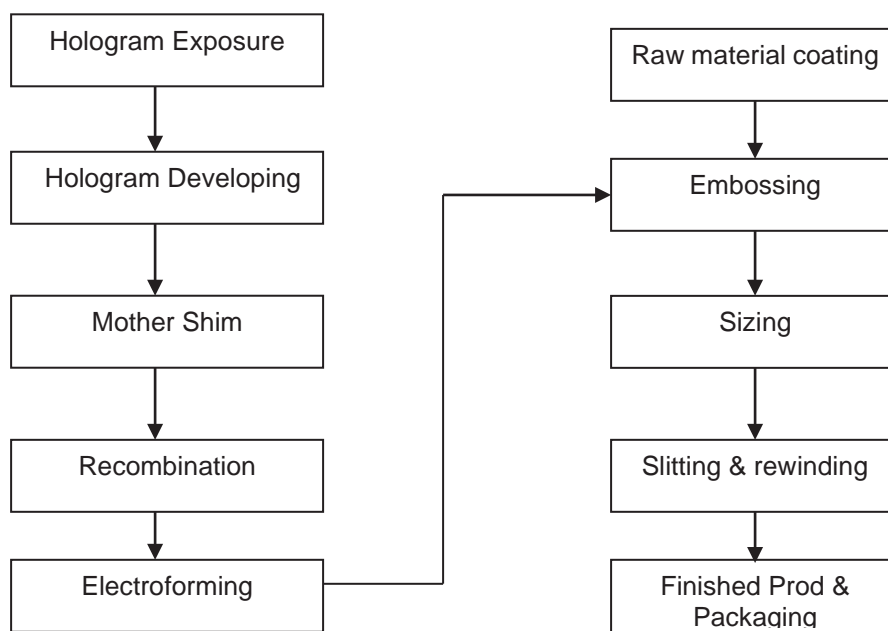
- A. Hot Stamping Foil target market
 - Cigarette Packaging market • Stationary market
 - Wine Label market • Greeting card market
 - Paper box market • ID Card market • Toy market
 - Cosmetic market
- B. Cold Foil target market:
 - Label market • Wine Label market • Beverage market
 - Soft tube market • Security market
- C. PET film target market
 - Decoration market • Glitter market • Yarn market
 - Security label market • Tape market
 - Artificial leather market • Demetalized market
 - Paper box market • Printing market
- D. OPP film target market
 - Shopping bag market • Paper box market
 - OPP lamination market • Festival couplets market
 - Tape market • Printing market • Demetalized market
- E. PVC film target market
 - Christmas market • Sticker market • Ribbon market

- Festival couplets market
- Sequin market • Printing market • Credit Card market

F. Holographic paper target market

- Packaging market • Paper folding box market • Greeting card market • Sticker market
- Wine label market • Magazine market • Stationery market • Paper bag market.

2.2-2 Product Manufacturing Process (Hot Stamping Foil)



2.3 Major Raw Material & Status

In recent years, the company's major suppliers are Jiangsu Xinguang (base coating film), NAN YA Plastics (base film), and SEKISUI, Fanyi (stock) company (optoelectronics), with no major changes. The above suppliers have stable material quality, reasonable prices and on time delivery.

2.4 Major Customers and Suppliers Who Had Made Up Exceeding 10%

2.4-1 Major Suppliers : None of major suppliers who made up exceeding 10%.

2.4-2 Major Customer : Made up exceeding 10%.

Unit : NT\$ Thousands

| Customer | 2018 | | 2019 | |
|---|---------|--------|---------|--------|
| | Amount | % | Amount | % |
| Dongguan light chi photoelectric co., LTD | 697,722 | 13.41% | 785,215 | 15.10% |

2.5 Production Quantity / Value

Unit : NT\$ Thousands /KM²

| Production Product | 2018 | | | 2019 | | |
|---|----------|----------|-----------|----------|----------|-----------|
| | Capacity | Quantity | Value | Capacity | Quantity | Value |
| Holographic Film(included Security label) | 310,243 | 211,101 | 978,702 | 352,496 | 200,178 | 941,522 |
| Holographic Paper | 161,360 | 103,738 | 1,246,053 | 175,720 | 98,339 | 1,158,188 |
| Optical Film | 21,660 | 15,907 | 1,147,086 | 22,620 | 15,533 | 1,118,513 |
| Others | - | - | 32,267 | - | - | 27,970 |
| Total | 493,263 | 330,747 | 3,404,108 | 550,836 | 314,050 | 3,246,192 |

2.6 Sales Quantity / Value

Unit : NT\$ Thousands /KM²

| Year Sales Product | 2018 | | | | 2019 | | | |
|--------------------------|----------|---------|----------|-----------|----------|---------|----------|-----------|
| | Domestic | | Export | | Domestic | | Export | |
| | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Holographic Film | 4,261 | 44,882 | 202,640 | 1,474,829 | 3,577 | 40,345 | 186,647 | 1,556,800 |
| Holographic Paper | - | - | 113,780 | 1,586,607 | 2 | 291 | 109,405 | 1,609,301 |
| Optical Film | 1,411 | 97,864 | 14,210 | 1,206,580 | 746 | 55,121 | 14,727 | 1,312,045 |
| Security label | 2,368 | 72,458 | 216,433 | 56,987 | 3,359 | 71,264 | 3,555 | 40,985 |
| Projector | 3 | 62,484 | 13 | 248,352 | 2 | 34,893 | 12 | 237,142 |
| Projector Accessories | 69 | 29,283 | 121 | 159,589 | 101 | 7,385 | 24 | 46,379 |
| Others | 962 | 6,831 | 15,473 | 155,504 | 1,188 | 5,819 | 5,694 | 181,255 |
| Total | 9,074 | 313,802 | 562,668 | 4,888,448 | 8,974 | 215,117 | 320,063 | 4,983,905 |

3. Employee Analysis

Employee Analysis from 2018 to Mar. 31, 2020

| Year | | 2018 | 2019 | Mar. 31, 2020 |
|-----------------------------|-----------------------------|-------|-------|---------------|
| Number of Employees | Administrators | 150 | 147 | 144 |
| | Sales | 109 | 121 | 120 |
| | Technicians | 91 | 106 | 99 |
| | Direct Engineers | 632 | 570 | 568 |
| | Indirect Engineers | 207 | 226 | 228 |
| | Total | 1,188 | 1,168 | 1,158 |
| Average Age | | 39.80 | 41.26 | 40.45 |
| Average Years of Employment | | 7.54 | 7.95 | 8.12 |
| Level of Education (%) | Ph.D. | 3.90 | 3.96 | 0.66 |
| | Masters Degree | 7.76 | 10.10 | 9.93 |
| | Bachelors/ Associate Degree | 42.67 | 44.33 | 47.16 |
| | Senior High School | 35.75 | 31.60 | 32.43 |
| | Under | 9.92 | 10.01 | 9.82 |

4. Environmental Protection Information

4.1 Over the Last Two Years the Company Has Suffered No Related to Fines or Measures Resulting from Environmental Pollution.

4.2 The related information of matching up the RoHS :

The product of K Laser is not involved in the rules of RoHS.

5. Labor Relations

5.1 Employee Benefits, Education Plan, Training Plan, Retirement Policy, and Agreement with

Employees.

Employee Benefits:

All employee welfare measures of the company are handled in accordance with the labor-based laws, labor insurance regulations, employee welfare regulations and related laws and regulations. Employees shall participate in labor insurance and universal health insurance, and shall pay for maternity, injury, medical treatment, disability, old age, death, etc. The company also has regular health checks and education training for employees, so that employees can work harder.

The company has staff restaurants, cafes, fitness rooms, social centers, reading rooms, KTV, rhythm classrooms, billiards rooms, basketball courts and special parking lots and other indoor parking facilities. Place to rest.

In terms of the employee welfare committee, in addition to providing various subsidies for employees' marriage, bereavement, sickness and childbirth, they also handle domestic tourism, employee health activities, special discount stores and other activities from time to time to adjust employees' mind and body and strengthen their friendship.

Retirement Policy:

In order to stabilize the life of employees after retirement, the company has a retirement method for officially hired employees. According to the regulations, the payment of employee pension is based on the service years and the average salary at retirement. The monthly pension fund is allocated 2% of the total salary paid. The retirement fund department is managed by the Employee Retirement Fund Management Committee and stored in the Bank of Taiwan in its name to protect labor rights. Since July 1, 2005, the government's new retirement system has been adopted in parallel. Employees who choose to apply the "New Labor Retirement Regulations" to the pension system will be allocated 6% of their monthly salary to the "People's Insurance Bureau". Special accounts, those who voluntarily withdraw pensions, will be withheld from the employee's monthly salary to the personal pension pension account of the Labor Insurance Bureau according to the self-withdrawal rate.

The company's applicable regulations under the Labor Pension Regulations are as follows:

1. Voluntary retirement

Workers may voluntarily retire under one of the following circumstances:

- (1) Those who have worked for more than fifteen years and have reached the age of fifty-five.
- (2) Those who have worked for more than 25 years.
- (3) Those who have worked for more than ten years and have reached the age of sixty.

2. Forced retirement

If an employee is not in one of the following situations, the company shall not force him to retire:

- (1) Those who are over 65 years old.
- (2) Loss of mind or physical disability is unfit for workers.

For the age specified in the first paragraph of the preceding paragraph, the company may report to the central competent authority for approval and adjustment for workers with special characteristics such as danger and strong physical strength. But not less than fifty-five years old.

3. Pension grant standard

- (1) The years of work before and after the application of the Labor Base Law and the choice of continuing to apply the "Labor Standard Law" pension provisions or retaining the years of work before applying the Labor Pension Law according to the Labor Pension Law Article 84 bis and Article 55 are calculated.
- (2) For employees who have the working experience in the preceding paragraph and are forced to retire in accordance with Article 35, Paragraph 1 and Paragraph 2, the loss of mind or physical disability is due to the performance of their duties, according to Article 55, Paragraph 1 The

second paragraph provides a 20% increase.

- (3) For employees who are subject to the pension provisions of the Labor Pension Regulations, the company withdraws 6% of their monthly salary to the individual pension account of the laborers.

4. Pension payment

The company shall pay the employee's pension, within 30 days from the date of the employee's retirement.

Employee Stock Trust

In the company's labor retirement system, in addition to regularly allocating reserves to the statutory retirement account in accordance with the Labor Standards Law and the Labor Pension Regulations, in addition to the establishment of a shareholding trust committee, employees of the company's official personnel establishment can apply Join the meeting, and decide the amount of monthly withdrawals and purchase the company's stocks in a fixed amount on a regular basis. The company also provides a relative public withdrawal as a shareholding incentive in accordance with the articles of association of the employee's shareholding committee.

The agreement between labor and management has always maintained a harmonious relationship through rational communication, and both labor and management can use the employee welfare committee to maintain good labor relations.

Subsidiaries have also been handled in accordance with local laws and regulations.

5.2 The Company Had Suffered No Loss Related to Labor Disputes Over the Last Two Years and Management Believes Its Labor Relations to Be Good.

6. Important Contracts

| Nature of Agreement | Party | Start and End Date | Content | Restriction Clause |
|-----------------------------------|-------------------|--------------------|---|---------------------------------------|
| Medium & Long-Term Loan Agreement | Taipei Fubon Bank | 2019.12~2022.12 | Syndication Loan amount is NTD 800,000 (thousand) | Pledge factory premises as collateral |
| Medium & Long-Term Loan Agreement | KGI Bank | 2019.12~2022.12 | Loan amount is NTD 120,000 (thousand) | - |
| Medium & Long-Term Loan Agreement | Taipei Fubon Bank | 2019.05~2021.05 | Loan amount is NTD 100,000 (thousand) | - |
| Medium & Long-Term Loan Agreement | CTBC Bank | 2019.08~2021.08 | Loan amount is NTD 100,000 (thousand) | - |
| Medium & Long-Term Loan Agreement | Jihsun Bank | 2019.11~2021.11 | Loan amount is NTD 150,000 (thousand) | - |
| Medium & Long-Term Loan Agreement | Yunta Bank | 2019.03~2021.03 | Loan amount is NTD 100,000 (thousand) | - |

Financial Information

1. Condensed Financial Statements of the Past Five Years

1.1 Condensed Financial Statements of the Past Five Years (IFRS)

1.1.1 Condensed Consolidated Balance Sheet from 2015 to 2019 (IFRS)

Unit : NT\$ Thousands

| Items \ Year | | Financial Statements from 2015 to 2019 (Note1) | | | | |
|--|-----------------------------|--|-----------|-----------|-----------|-----------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Current Assets | | 3,528,980 | 4,693,458 | 4,458,503 | 4,326,249 | 4,404,924 |
| Property, Plant and Equipment | | 1,328,591 | 1,339,897 | 1,291,759 | 1,246,743 | 1,189,677 |
| Intangible Assets | | 4,044 | 1,724 | 7,082 | 6,917 | 48,465 |
| Other Assets | | 1,134,425 | 994,487 | 1,076,296 | 1,030,248 | 1,143,398 |
| Total Assets | | 5,996,040 | 7,029,566 | 6,833,640 | 6,610,157 | 6,786,464 |
| Current Liabilities | Before Distribution | 1,794,121 | 2,845,550 | 2,035,167 | 2,223,575 | 2,142,290 |
| | After Distribution (Note 2) | 1,860,354 | 2,954,664 | 2,126,629 | 2,285,618 | 2,142,290 |
| Non- Current Liabilities | | 1,036,368 | 899,791 | 1,085,882 | 998,362 | 1,400,653 |
| Total Liabilities | Before Distribution | 2,830,489 | 3,745,341 | 3,121,049 | 3,221,937 | 3,542,943 |
| | After Distribution (Note 2) | 2,896,722 | 3,854,455 | 3,212,511 | 3,283,980 | 3,542,943 |
| Equity attributable to owners of the Company | | 2,542,668 | 2,474,006 | 2,908,024 | 2,686,816 | 2,401,089 |
| Capital Stock | | 1,324,665 | 1,328,299 | 1,653,246 | 1,593,246 | 1,593,246 |
| Capital Surplus | | 408,627 | 392,890 | 548,370 | 529,962 | 551,531 |
| Retained Earnings | Before Distribution | 724,695 | 869,637 | 915,195 | 857,871 | 669,939 |
| | After Distribution (Note 2) | 658,462 | 760,523 | 823,733 | 795,828 | 669,939 |
| Other equity | | 84,681 | (116,820) | (177,585) | (201,145) | (311,505) |
| Treasury Stock | | - | - | (31,202) | (93,118) | (102,122) |
| Non-controlling interests | | 622,883 | 810,219 | 804,567 | 701,404 | 842,432 |
| Total Equity | Before Distribution | 3,165,551 | 3,284,225 | 3,712,591 | 3,388,220 | 3,243,521 |
| | After Distribution | 3,099,318 | 3,175,111 | 3,621,129 | 3,326,177 | 3,243,521 |

Note : 1. The financial statements from 2015 to 2019 have been certified by CPA.

2. The most recent profit and loss appropriation was proposed by the board of directors and has not yet been decided by the shareholders' meeting.

1.1.2 Condensed Consolidated Income Statement from 2015 to 2019 (IFRS)

Unit : NT\$ Thousands (Except EPS)

| Items \ Year | Financial Statements from 2015 to 2019 (Note1) | | | | |
|---|--|-----------|-----------|-----------|-----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Net Sales | 4,056,697 | 5,080,255 | 5,217,612 | 5,202,250 | 5,199,022 |
| Gross Profit | 1,012,907 | 1,281,402 | 1,283,526 | 1,093,893 | 1,184,160 |
| Operating Income | 289,510 | 473,149 | 412,743 | 172,849 | 31,018 |
| Non-Operating Revenue& Expense | (40,915) | (130,576) | (137,828) | (85,850) | (146,410) |
| Profit before tax | 248,595 | 342,573 | 274,915 | 86,999 | (115,392) |
| Gain (Loss) from Continued Operations | 183,374 | 249,897 | 200,265 | 24,455 | (158,709) |
| Gain (Loss) from Discontinued Operations | - | - | - | - | - |
| Profit for the year | 183,374 | 249,897 | 200,265 | 24,455 | (158,709) |
| Other comprehensive income ,net of income tax | (52,349) | (220,268) | (80,752) | (78,242) | (117,997) |
| Total comprehensive income for the year | 131,025 | 29,629 | 119,513 | (53,787) | (276,706) |
| Profit for the year attributable to owners of the company | 164,346 | 215,461 | 155,016 | 65,829 | (119,835) |
| Profit for the year attributable to non-controlling interests | 19,028 | 34,436 | 45,249 | (41,374) | (38,874) |
| Total comprehensive income for the year attributable to owners of the company | 113,940 | 9,674 | 93,907 | 23,290 | (234,732) |
| Total comprehensive income for the year attributable to non-controlling interests | 17,085 | 19,955 | 25,606 | (77,077) | (41,974) |
| Earnings Per Share (NT\$) Note2 | 1.12 | 1.63 | 1.12 | 0.41 | (0.79) |

Note : 1. The financial statements from 2015 to 2019 have been certified by CPA.

2. Earnings per share are based on retroactively adjusted weighted average outstanding common stocks.

1.1.3 Condensed Balance Sheet from 2015 to 2019 (Individual) (IFRS)

Unit : NT\$ Thousands

| Items | | Year | Financial Statements from 2015 to 2019 (Note1) | | | | |
|--|-----------------------------|------|--|-----------|-----------|-----------|-----------|
| | | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Current Assets | | | 296,462 | 435,657 | 401,654 | 290,977 | 455,606 |
| Property, Plant and Equipment | | | 211,856 | 211,192 | 195,907 | 199,166 | 159,873 |
| Intangible Assets | | | 482 | 195 | 1,953 | 3,751 | 3,009 |
| Other Assets | | | 3,958,268 | 3,895,447 | 3,901,470 | 3,761,144 | 3,765,639 |
| Total Assets | | | 4,467,068 | 4,542,491 | 4,500,984 | 4,255,038 | 4,384,127 |
| Current Liabilities | Before Distribution | | 887,225 | 1,170,564 | 511,136 | 578,918 | 576,699 |
| | After Distribution (Note 2) | | 953,458 | 1,279,678 | 602,598 | 640,961 | 576,699 |
| Non- Current Liabilities | | | 1,037,175 | 897,921 | 1,081,824 | 989,304 | 1,406,339 |
| Total Liabilities | Before Distribution | | 1,924,400 | 2,068,485 | 1,592,960 | 1,568,222 | 1,983,038 |
| | After Distribution (Note 2) | | 1,990,633 | 2,177,599 | 1,684,422 | 1,630,265 | 1,983,038 |
| Equity attributable to owners of the Company | | | 2,542,668 | 2,474,006 | 2,908,024 | 2,686,816 | 2,401,089 |
| Capital Stock | | | 1,324,665 | 1,328,299 | 1,653,246 | 1,653,246 | 1,593,246 |
| Capital Surplus | | | 408,627 | 392,890 | 548,370 | 529,962 | 551,531 |
| Retained Earnings | Before Distribution | | 724,695 | 869,637 | 915,195 | 857,871 | 669,939 |
| | After Distribution (Note 2) | | 658,462 | 760,523 | 823,733 | 795,828 | 669,939 |
| Other equity | | | 131,780 | 84,681 | (116,820) | (177,585) | (311,505) |
| Treasury Stock | | | (244,015) | - | - | (31,202) | (102,122) |
| Total Equity | Before Distribution | | 2,542,668 | 2,474,006 | 2,908,024 | 2,686,816 | 2,401,089 |
| | After Distribution | | 2,476,435 | 2,364,892 | 2,816,562 | 2,624,773 | 2,401,089 |

Note : 1. The financial statements from 2015 to 2019 have been certified by CPA.

2. The most recent profit and loss appropriation was proposed by the board of directors and has not yet been decided by the shareholders' meeting.

1.1.4 Condensed Income Statement from 2015 to 2019 (Individual) (IFRS)

Unit : NT\$ Thousands (Except EPS)

| Items \ Year | Financial Statements from 2015 to 2019 (Note1) | | | | |
|---|--|-----------|----------|----------|-----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Net Sales | 508,628 | 550,738 | 568,068 | 617,703 | 650,286 |
| Gross Profit | 92,399 | 103,681 | 96,892 | 114,920 | 107,752 |
| Operating Income | (27,824) | (22,502) | (39,512) | (30,793) | (73,128) |
| Non-Operating Revenue& Expense | 198,064 | 248,800 | 205,579 | 104,588 | (44,661) |
| Profit before tax | 170,240 | 226,298 | 166,067 | 73,795 | (117,789) |
| Gain (Loss) from Continued Operations | 164,346 | 215,461 | 155,016 | 65,829 | (119,835) |
| Gain (Loss) from Discontinued Operations | - | - | - | - | - |
| Profit for the year | 164,346 | 215,461 | 155,016 | 65,829 | (119,835) |
| Other comprehensive income ,net of income tax | (50,406) | (205,787) | (61,109) | (42,539) | (114,897) |
| Total comprehensive income for the year | 113,940 | 9,674 | 93,907 | 23,290 | (234,732) |
| Earnings Per Share (NT\$) Note2 | 1.12 | 1.63 | 1.12 | 0.41 | (0.79) |

Note : 1. The financial statements from 2015 to 2019 have been certified by CPA.

2. Earnings per share are based on retroactively adjusted weighted average outstanding common stocks.

1.2 CPA's Opinion of the Past Five Years

1.2-1 CPA's Opinion from 2015 to 2019

| Year | CPA | Auditors' Opinion |
|------|-----------------------------|--|
| 2015 | Hung-bin Yu, Ker-Chang, Wu | An Unqualified Opinion with an Explanatory Paragraph |
| 2016 | Hung-bin Yu, Ker-Chang, Wu | An Unqualified Opinion with an Explanatory Paragraph |
| 2017 | Hung-bin Yu, Ker-Chang, Wu | An Unqualified Opinion with an Explanatory Paragraph |
| 2018 | Yi-Min Huang, Guo-Tian Hong | An Unqualified Opinion with an Explanatory Paragraph |
| 2019 | Wen-Yea Shyu, Yi-Min Huang | An Unqualified Opinion with an Explanatory Paragraph |

2. Financial Analysis of the Past Years

2.1 Financial Analysis of the Past Years (IFRS)

2.1.1 Financial Analysis of the Past Years (IFRS) (Consolidated)

| Analysis Items | | Year | Financial Analysis from 2015 to 2019(Note1) | | | | |
|---|---|------|---|--------|--------|--------|--------|
| | | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Capital Structure (%) | Debt Ratio | | 47.21 | 53.28 | 45.67 | 48.74 | 52.21 |
| | Long-Term Funds to Property, plant and equipment | | 316.27 | 312.26 | 371.47 | 351.84 | 390.37 |
| Solvency (%) | Current Ratio | | 196.70 | 164.73 | 219.07 | 194.56 | 205.62 |
| | Quick Ratio | | 163.21 | 131.41 | 172.62 | 146.89 | 159.80 |
| | Interest Coverage (Times) | | 8.37 | 9.55 | 7.38 | 3.60 | -1.84 |
| Operating Performance | Account Receivables Turnover (Times) | | 2.50 | 2.84 | 2.82 | 3.05 | 3.22 |
| | Average AR Turnover Days | | 145.94 | 128.51 | 129.30 | 119.67 | 113.35 |
| | Inventory Turnover (Times) | | 5.18 | 5.25 | 4.49 | 4.45 | 4.24 |
| | Account Payable Turnover (Times) | | 8.29 | 6.67 | 5.52 | 5.73 | 5.71 |
| | Average Inventory Turnovers Days | | 70.49 | 69.54 | 81.28 | 82.02 | 86.08 |
| | Property, plant and equipment Turnover (Times) | | 2.97 | 3.81 | 3.97 | 4.10 | 4.27 |
| | Total Assets Turnover (Times) | | 0.67 | 0.78 | 0.75 | 0.77 | 0.78 |
| Profitability | Return on Total Assets (%) | | 3.47 | 4.35 | 3.41 | 0.76 | -1.88 |
| | Return on Equity attributable to Shareholders of the Parent (%) | | 6.10 | 8.59 | 5.76 | 2.35 | -4.71 |
| | Return on Capital Income Before Tax (%) | | 18.77 | 25.79 | 16.63 | 5.46 | -7.24 |
| | Net Profit Ratio (%) | | 4.52 | 4.92 | 3.84 | 0.47 | -3.05 |
| | Earnings Per Share (NT\$)(Note2) | | 1.12 | 1.63 | 1.12 | 0.41 | -0.79 |
| Cash Flow | Cash Flow Ratio (%) | | 39.79 | 17.59 | 29.40 | 12.60 | 21.95 |
| | Cash Flow Adequacy Ratio (%) | | 163.57 | 170.92 | 162.00 | 140.97 | 186.19 |
| | Cash Reinvestment Ratio (%) | | 10.26 | 6.65 | 6.76 | 2.74 | 6.01 |
| Leverage | Operating Leverage | | 1.67 | 1.44 | 1.50 | 2.17 | 8.69 |
| | Financial Leverage | | 1.13 | 1.09 | 1.12 | 1.24 | -3.23 |
| Explanation for the change in financial ratios over 20% in last two years: In 2019 , due to the increase in the expected credit loss of the subsidiaries and the equity method investment losses, resulting in a decline in overall profitability. The related profitability ratio, cash flow ratio, leverage and interest protection multiples have declined significantly. | | | | | | | |

Note : 1. The financial statements from 2015 to 2019 have been certified by CPA.

2. Earnings per share are based on retroactively adjusted weighted average outstanding common stocks.

2.1.2 Financial Analysis of the Past Years (IFRS) (Individual)

| Analysis Items | | Year | Financial Analysis from 2015 to 2019(Note1) | | | | |
|--|--|------|---|---------|---------|---------|---------|
| | | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Capital Structure (%) | Debt Ratio | | 43.08 | 45.54 | 35.39 | 36.86 | 45.23 |
| | Long-Term Funds to Property, plant and equipment | | 1689.75 | 1596.62 | 2036.60 | 1845.76 | 2381.53 |
| Solvency (%) | Current Ratio | | 33.41 | 37.22 | 78.58 | 50.26 | 79.00 |
| | Quick Ratio | | 31.00 | 34.24 | 72.11 | 43.64 | 72.01 |
| | Interest Coverage (Times) | | 7.24 | 8.19 | 6.69 | 4.69 | -4.50 |
| Operating Performance | Account Receivables Turnover (Times) | | 4.82 | 5.95 | 6.72 | 6.01 | 5.54 |
| | Average AR Turnover Days | | 75.71 | 61.34 | 54.31 | 60.73 | 65.88 |
| | Inventory Turnover (Times) | | 17.68 | 16.65 | 14.78 | 15.62 | 15.38 |
| | Account Payable Turnover (Times) | | 6.35 | 7.90 | 9.02 | 8.29 | 7.25 |
| | Average Inventory Turnovers Days | | 20.64 | 21.92 | 24.69 | 23.37 | 23.73 |
| | Property, plant and equipment Turnover (Times) | | 2.57 | 2.60 | 2.79 | 3.13 | 3.62 |
| | Total Assets Turnover (Times) | | 0.11 | 0.12 | 0.13 | 0.14 | 0.15 |
| Profitability | Return on Total Assets (%) | | 4.18 | 5.36 | 3.96 | 1.87 | -2.38 |
| | Return on Equity (%) | | 6.10 | 8.59 | 5.76 | 2.35 | -4.71 |
| | Return on Capital Income Before Tax (%) | | 12.85 | 17.04 | 10.04 | 4.63 | -7.39 |
| | Net Profit Ratio (%) | | 32.31 | 39.12 | 27.29 | 10.66 | -18.43 |
| | Earnings Per Share (NT\$)(Note2) | | 1.12 | 1.63 | 1.12 | 0.41 | -0.79 |
| Cash Flow | Cash Flow Ratio (%) | | - | - | - | - | 2.83 |
| | Cash Flow Adequacy Ratio (%) | | 10.04 | 9.64 | 0.85 | - | 3.32 |
| | Cash Reinvestment Ratio (%) | | -1.34 | -1.70 | -2.44 | -2.19 | -1.10 |
| Leverage | Operating Leverage | | 0.17 | -0.33 | 0.31 | - | 0.57 |
| | Financial Leverage | | 0.50 | 0.42 | 0.58 | 0.61 | 0.77 |
| <p>Explanation for the change in financial ratios over 20% in last two years:</p> <p>In 2019 , due to the expected increase in credit impairment losses and the increase in external investment losses in the industry, the overall profit fell, and the related profitability, cash flow rate, leverage ratio and interest protection multiples fell significantly. In addition, since 2019, it has cooperated with IFRS16 to recognize leased assets and liabilities, etc., resulting in an increase in the financial structure ratio of the current period.</p> | | | | | | | |

Note : 1.The financial statements from 2015 to 2019 have been certified by CPA.

2.Earnings per share are based on retroactively adjusted weighted average outstanding common stocks.

- Capital Structure :
 - (1) Debt Ratio = $\text{Total liabilities} / \text{Total Assets}$
 - (2) Long-Term Funds to Fixed Assets = $(\text{Stockholders' Equity} + \text{Long-Term liabilities}) / \text{Property, plant and equipment, net}$
- Solvency :
 - (1) Current Ratio = $\text{Current Assets} / \text{Current Liabilities}$
 - (2) Quick Ratio = $(\text{Current Assets} - \text{Inventories} - \text{Prepaid Expenses}) / \text{Current Liabilities}$
 - (3) Interest Coverage(Times) = $\text{Income before tax and interest expenses} / \text{interest expenses}$
- Operating Performance :
 - (1) Account Receivables Turnover (Times) = $\text{Net Sales} / \text{average of the period of AR}$
 - (2) Average AR Turnover Days = $365 / \text{Account Receivables Turnover (Times)}$
 - (3) Inventory Turnover(Times) = $\text{Cost of Sales} / \text{average of inventories}$
 - (4) Account Payable Turnover (Times) = $\text{Cost of Sales} / \text{average of the period of AP}$
 - (5) Average Inventory Turnovers Days = $365 / \text{Inventory Turnover (Times)}$
 - (6) Fixed Assets Turnover (Times) = $\text{Net Sales} / \text{Property, plant and equipment, net}$
 - (7) Total Assets Turnover (Times) = $\text{Net Sales} / \text{Total Assets}$
- Profitability :
 - (1) Return on Total Assets (%) = $[\text{Net income after tax} + \text{interest expense} \times (1 - \text{ratio of tax})] / \text{average of Total Assets} \circ$
 - (2) Return on Equity (%) = $\text{Net income after tax} / \text{average of Stockholders' Equity}$
 - (3) Net Profit Ratio (%) = $\text{Net income after tax} / \text{Net Sales}$
 - (4) Earnings Per Share (NT\$) = $(\text{Net income after tax} - \text{Stock Div.-Preferred}) / \text{weight average outstanding common stocks}$
- Cash Flow :
 - (1) Cash Flow Ratio (%) = $\text{Net cash provided by operating activities} / \text{Current Liabilities}$
 - (2) Cash Flow Adequacy Ratio (%) = $\text{Net cash provided by operating activities in recently five year} / \text{Recently five year of (capital expenses} + \text{Increase of inventories} + \text{Cash dividend})$
 - (3) Cash Reinvestment Ratio (%) = $(\text{Net cash provided by operating activities} - \text{Cash dividend}) / (\text{Property, plant and equipment, gross} + \text{Long-Term Investment} + \text{other assets} + \text{Working Capital})$
- Leverage :
 - (1) Operating Leverage = $(\text{Net Sales} - \text{changes of operating cost and expense}) / \text{operating income}$
 - (2) Financial Leverage = $\text{operating income} / (\text{operating income} - \text{interest expense})$

3. The Audit Committee' Report

The Board of Directors have prepared and submitted to us the Company's 2019 Business Report, Financial Statements, and proposal for allocating profit. The CPAs of Deloitte & Touche were retained to audit the Financial Statements and have submitted a report relating there too. The above Business Report, and Financial Statements and proposal have been further examined as being correct and accurate by the undersigned, the Audit Committee of the Company. According to the Article14 of the Securities Exchange Act and Article 219 of the Company Law, we hereby submit this report.

K Laser Technology Inc.

Audit Committee Convener :



Gen-Sen Chang-Hsieh

A handwritten signature in blue ink, corresponding to the name Gen-Sen Chang-Hsieh.

March 30,2020

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies that are required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as those included in the consolidated financial statements of parent and subsidiary companies prepared in conformity with the International Financial Reporting Standard No. 10, “Consolidated Financial Statements”. In addition, relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, K Laser Technology Inc. and subsidiaries did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

K Laser Technology Inc.

By

KUO WEI-WU
Chairman

March 30, 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
K Laser Technology Inc.

Opinion

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

In our opinion, based on our audits and the report of other auditors (refer to the other matter paragraph), 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, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

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

Recognition of Sales Revenue

The sales revenue of the Group is mainly generated from the manufacture of laser films, anti-counterfeit labels, precision optical components and optical instruments, etc., in which the major source of sales revenue comes from various regions in mainland China. Since the occurrence and timing of revenue recognition are significant to the consolidated financial statements, the validity of sales revenue from major trading partners within specific regions in mainland China was identified as a key audit matter for the year ended December 31, 2019. Refer to Note 4 to the consolidated financial statements for the details on accounting policies related to revenue recognition.

Our key audit procedures performed in respect of the recognition of sales revenue were as follows:

1. We understood the internal control procedures, confirmed and assessed the effectiveness of internal controls related to sales transactions.
2. We sampled the Group's major customers in mainland China, reviewed their external shipping documents, export declaration forms and verified that the counterparties were consistent with sales, and assessed the reasonableness of revenue recognition.

Other Matter

We did not audit the financial statements of some subsidiaries included in the consolidated financial statements of the Group, but such statements were instead audited by other auditors. Our opinion, insofar as it relates to the amounts included for some subsidiaries, is based solely on the report of other auditors. As of December 31, 2019 and 2018, the total assets of the aforementioned subsidiaries amounted to NT\$223,410 thousand and NT\$259,350 thousand, respectively, which accounted for 3.29% and 3.92% of the consolidated total assets, respectively. For the years ended December 31, 2019 and 2018, the net operating revenue of these subsidiaries were NT\$323,629 thousand and NT\$317,320 thousand, respectively, which accounted for 6.22% and 6.10% of the consolidated net operating revenue, respectively.

The financial statements of some investee companies accounted for using the equity method were audited by other auditors. The amounts within the consolidated financial statements for those investee companies were based solely on the reports of other auditors. As of December 31, 2019 and 2018, the aforementioned investments accounted for using the equity method were NT\$110,335 thousand and NT\$105,274 thousand, respectively, which accounted for 1.62% and 1.59% of the consolidated total assets, respectively. For the years ended December 31, 2019 and 2018, the amounts of investment gain and loss recognized by the aforementioned investee companies and accounted for using the equity method were a loss of NT\$9,460 thousand and a gain of NT\$8,016 thousand, respectively, which accounted for (8.20)% and 9.21% of the consolidated net profit (loss) before tax, respectively. Refer to Note 34 to the consolidated financial statements for relevant information on the above investee companies which we have not audited but were audited by other auditors.

We have also audited the parent company only financial statements of K Laser Technology Inc. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unqualified opinion with other matter paragraph.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 control that we identify during our audit.

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

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

The engagement partners on the audit resulting in this independent auditors' report are Wen-Yea Shyu and Yi-Min Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 30, 2020

Notice to Readers

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

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

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| ASSETS | 2019 | | 2018 | |
|--|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 1,588,179 | 23 | \$ 1,237,725 | 19 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 201,777 | 3 | 85,324 | 1 |
| Notes receivable (Notes 4 and 8) | 105,839 | 2 | 40,335 | - |
| Trade receivables (Notes 4 and 8) | 910,058 | 13 | 1,178,766 | 18 |
| Trade receivables from related parties (Notes 4, 8 and 30) | 473,652 | 7 | 524,534 | 8 |
| Other receivables (Note 30) | 36,358 | 1 | 65,973 | 1 |
| Deferred income tax assets (Notes 4 and 24) | 11,512 | - | 7,267 | - |
| Inventories (Notes 4 and 9) | 914,826 | 14 | 979,537 | 15 |
| Prepayments for leases - current (Notes 4 and 18) | - | - | 410 | - |
| Other current assets (Notes 6 and 19) | 162,723 | 2 | 206,378 | 3 |
| Total current assets | 4,404,924 | 65 | 4,326,249 | 65 |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10) | 102,466 | 1 | 126,379 | 2 |
| Investments accounted for using the equity method (Notes 4 and 12) | 600,010 | 9 | 742,554 | 11 |
| Property, plant and equipment (Notes 4 and 13) | 1,189,677 | 18 | 1,246,743 | 19 |
| Right-of-use assets (Notes 4 and 14) | 249,659 | 4 | - | - |
| Investment properties, net (Notes 4 and 15) | - | - | 51,537 | 1 |
| Goodwill (Notes 4, 16 and 27) | 85,752 | 1 | - | - |
| Other intangible assets (Notes 4 and 17) | 48,465 | 1 | 6,917 | - |
| Deferred tax assets (Notes 4 and 24) | 27,887 | - | 29,869 | 1 |
| Long-term prepayments for lease (Notes 4 and 18) | - | - | 19,363 | - |
| Other non-current assets (Notes 6 and 19) | 77,624 | 1 | 60,546 | 1 |
| Total non-current assets | 2,381,540 | 35 | 2,283,908 | 35 |
| TOTAL | <u>\$ 6,786,464</u> | <u>100</u> | <u>\$ 6,610,157</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 20) | \$ 801,147 | 12 | \$ 911,153 | 14 |
| Short-term notes and bills payable (Note 20) | 169,943 | 3 | 99,960 | 2 |
| Notes payable | 158,715 | 2 | 228,762 | 3 |
| Trade payables | 442,698 | 7 | 481,826 | 7 |
| Trade payables to related parties (Note 30) | 48,468 | 1 | 44,743 | 1 |
| Other payables (Note 30) | 379,677 | 6 | 338,252 | 5 |
| Current tax liabilities (Notes 4 and 20) | 22,463 | - | 20,911 | - |
| Lease liabilities - current (Notes 4 and 14) | 38,882 | - | - | - |
| Current portion of long-term liabilities (Note 20) | 10,000 | - | 64,000 | 1 |
| Other current liabilities | 70,297 | 1 | 33,968 | 1 |
| Total current liabilities | 2,142,290 | 32 | 2,223,575 | 34 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 20) | 1,180,000 | 17 | 976,000 | 15 |
| Lease liabilities - non-current (Notes 4 and 14) | 195,155 | 3 | - | - |
| Net defined benefit liabilities - non-current (Notes 4 and 21) | 25,498 | - | 22,362 | - |
| Total non-current liabilities | 1,400,653 | 20 | 998,362 | 15 |
| Total liabilities | 3,542,943 | 52 | 3,221,937 | 49 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 22) | | | | |
| Share capital | | | | |
| Ordinary shares | 1,593,246 | 23 | 1,593,246 | 24 |
| Capital reserve | 551,531 | 8 | 529,962 | 8 |
| Retained earnings | | | | |
| Legal reserve | 213,042 | 3 | 206,459 | 3 |
| Special reserve | 201,090 | 3 | 162,918 | 3 |
| Unappropriated earnings | 255,807 | 4 | 488,494 | 7 |
| Total retained earnings | 669,939 | 10 | 857,871 | 13 |
| Other equity | | | | |
| Exchange differences on translation of foreign financial statements | (278,472) | (4) | (195,571) | (3) |
| Unrealized gain on financial assets at fair value through other comprehensive income | (33,033) | - | (5,574) | - |
| Total other equity | (311,505) | (4) | (201,145) | (3) |
| Treasury shares | (102,122) | (2) | (93,118) | (1) |
| Total equity attributable to owners of the Company | 2,401,089 | 35 | 2,686,816 | 41 |

(Continued)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| | 2019 | | 2018 | |
|---------------------------|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| NON-CONTROLLING INTERESTS | <u>\$ 842,432</u> | <u>13</u> | <u>\$ 701,404</u> | <u>10</u> |
| Total equity | <u>3,243,521</u> | <u>48</u> | <u>3,388,220</u> | <u>51</u> |
| TOTAL | <u>\$ 6,786,464</u> | <u>100</u> | <u>\$ 6,610,157</u> | <u>100</u> |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2019 | | 2018 | |
|--|------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Note 30) | \$ 5,199,022 | 100 | \$ 5,202,250 | 100 |
| OPERATING COSTS (Notes 9 and 30) | <u>4,014,862</u> | <u>77</u> | <u>4,108,357</u> | <u>79</u> |
| GROSS PROFIT | <u>1,184,160</u> | <u>23</u> | <u>1,093,893</u> | <u>21</u> |
| OPERATING EXPENSES (Notes 8 and 30) | | | | |
| Selling and marketing | 317,144 | 6 | 326,757 | 6 |
| General and administrative | 406,136 | 8 | 361,759 | 7 |
| Research and development | 248,527 | 5 | 253,905 | 5 |
| Expected credit loss (gain) | <u>181,335</u> | <u>3</u> | <u>(21,377)</u> | <u>-</u> |
| Total operating expenses | <u>1,153,142</u> | <u>22</u> | <u>921,044</u> | <u>18</u> |
| PROFIT FROM OPERATIONS | <u>31,018</u> | <u>1</u> | <u>172,849</u> | <u>3</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profit or loss of associates accounted for using the equity method (Note 12) | (103,825) | (2) | (91,943) | (2) |
| Interest income (Note 30) | 13,871 | - | 14,452 | - |
| Dividend income | 837 | - | 2,485 | - |
| Other income (Note 30) | 15,042 | - | 38,832 | 1 |
| Gain (loss) on disposal of property, plant and equipment | 2,602 | - | (6,068) | - |
| (Loss) gain on foreign exchange | (11,795) | - | 47,705 | 1 |
| Gain on financial assets at fair value through profit or loss | 880 | - | 821 | - |
| Interest expense | (40,634) | (1) | (33,428) | (1) |
| Miscellaneous expense | (68,147) | (1) | (78,535) | (1) |
| Gain on disposal of investment (Note 12) | 49,298 | 1 | 19,829 | - |
| Impairment loss | <u>(4,539)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total non-operating income and expenses | <u>(146,410)</u> | <u>(3)</u> | <u>(85,850)</u> | <u>(2)</u> |
| (LOSS) PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS | (115,392) | (2) | 86,999 | 1 |
| INCOME TAX EXPENSE (Notes 4 and 24) | <u>(43,317)</u> | <u>(1)</u> | <u>(62,544)</u> | <u>(1)</u> |
| NET (LOSS) PROFIT FROM CONTINUING OPERATIONS | <u>(158,709)</u> | <u>(3)</u> | <u>24,455</u> | <u>-</u> |

(Continued)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| | 2019 | | 2018 | |
|--|---------------------|------------|--------------------|------------|
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 22) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans | \$ (4,228) | - | \$ (872) | - |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income | (24,763) | - | (61,275) | (1) |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations | (88,238) | (2) | (18,446) | - |
| Share of other comprehensive loss of subsidiaries, associates and joint ventures accounted for using the equity method | <u>(768)</u> | <u>-</u> | <u>2,351</u> | <u>-</u> |
| Other comprehensive loss for the year, net of income tax | <u>(117,997)</u> | <u>(2)</u> | <u>(78,242)</u> | <u>(1)</u> |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | <u>\$ (276,706)</u> | <u>(5)</u> | <u>\$ (53,787)</u> | <u>(1)</u> |
| NET PROFIT (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ (119,835) | (2) | \$ 65,829 | 1 |
| Non-controlling interests | <u>(38,874)</u> | <u>(1)</u> | <u>(41,374)</u> | <u>(1)</u> |
| | <u>\$ (158,709)</u> | <u>(3)</u> | <u>\$ 24,455</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ (234,732) | (4) | \$ 23,290 | - |
| Non-controlling interests | <u>(41,974)</u> | <u>(1)</u> | <u>(77,077)</u> | <u>(1)</u> |
| | <u>\$ (276,706)</u> | <u>(5)</u> | <u>\$ (53,787)</u> | <u>(1)</u> |
| EARNINGS (LOSS) PER SHARE (Note 25) | | | | |
| From continuing operations | | | | |
| Basic | <u>\$(0.79)</u> | | <u>\$0.41</u> | |
| Diluted | | | <u>\$0.41</u> | |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| | Equity Attributable to Shareholders of the Parent | | | | | | Others | | Non-controlling Interests | Total Equity |
|---|---|-----------------|-------------------|-----------------|-------------------------|---|---|-------------|---------------------------|--------------|
| | Share Capital | Capital Surplus | Retained Earnings | | | Exchange Differences on Translation of Financial Statements of Foreign Operations | Unrealized Loss (Gain) on Financial Assets at Fair Value Through Other Comprehensive Income | Total | | |
| | | | Legal Reserve | Special Reserve | Unappropriated Earnings | | | | | |
| BALANCE AT JANUARY 1, 2018 | \$ 1,653,246 | \$ 548,370 | \$ 190,957 | \$ 162,918 | \$ 561,320 | \$ (177,585) | \$ - | \$ (31,202) | \$ 804,567 | \$ 3,712,591 |
| Effect of retrospective application of IFRS 9 | - | - | - | - | - | - | 18,107 | - | 21,493 | 39,600 |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 1,653,246 | 548,370 | 190,957 | 162,918 | 561,320 | (177,585) | 18,107 | (31,202) | 826,060 | 3,752,191 |
| Appropriation of 2017 earnings (Note 22) | | | | | | | | | | |
| Legal reserve | - | - | 15,502 | - | (15,502) | - | - | - | - | - |
| Cash dividends | - | - | - | - | (91,462) | - | - | - | - | (91,462) |
| Net profit (loss) for the year ended December 31, 2018 | - | - | - | - | 65,829 | - | - | - | (41,374) | 24,455 |
| Other comprehensive loss for the year ended December 31, 2018 | - | - | - | - | (872) | (17,986) | (23,681) | - | (35,703) | (78,242) |
| Buy-back of treasury shares (Note 22) | - | - | - | - | - | - | - | (150,185) | - | (150,185) |
| Cancellation of treasury shares (Note 22) | (60,000) | (18,496) | - | - | (9,773) | - | - | 88,269 | - | |
| Changes in associates and joint ventures accounted for using the equity method | - | - | - | - | (21,046) | - | - | - | - | (21,046) |
| Changes in percentage of ownership interests in subsidiaries | - | 88 | - | - | - | - | - | - | - | 88 |
| Non-controlling interests | - | - | - | - | - | - | - | - | (47,579) | (47,579) |
| BALANCE AT DECEMBER 31, 2018 | 1,593,246 | 529,962 | 206,459 | 162,918 | 488,494 | (195,571) | (5,574) | (93,118) | 701,404 | 3,388,220 |
| Appropriation of 2018 earnings (Note 22) | | | | | | | | | | |
| Legal reserve | - | - | 6,583 | - | (6,583) | - | - | - | - | - |
| Special reserve | - | - | - | 38,226 | (38,226) | - | - | - | - | - |
| Cash dividends | - | - | - | - | (62,043) | - | - | - | - | (62,043) |
| Net loss for the year ended December 31, 2019 | - | - | - | - | (119,835) | - | - | - | (38,874) | (158,709) |
| Other comprehensive loss for the year ended December 31, 2019 | - | - | - | - | (4,228) | (82,979) | (27,690) | - | (3,100) | (117,997) |
| Buy-back of treasury shares (Note 22) | - | - | - | - | - | - | - | (17,422) | - | (17,422) |
| Acquisition of the Company's shares by subsidiaries as treasury shares | - | - | - | - | - | - | - | (22,785) | (28,503) | (51,288) |
| Share-based payment transactions (Note 26) | - | 21,060 | - | - | - | - | - | 31,203 | - | 52,263 |
| Differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries | - | 211 | - | (54) | (177) | 78 | 231 | - | - | 289 |

(Continued)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| | Equity Attributable to Shareholders of the Parent | | | | | | Others | | | |
|--|---|-----------------|-------------------|-----------------|-------------------------|---|---|--------------|---------------------------|--------------|
| | | | Retained Earnings | | | | | | | |
| | Share Capital | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translation of Financial Statements of Foreign Operations | Unrealized Loss (Gain) on Financial Assets at Fair Value Through Other Comprehensive Income | Total | Non-controlling Interests | Total Equity |
| Changes in percentage of ownership interests in subsidiaries | \$ - | \$ 298 | \$ - | \$ - | \$ (1,595) | \$ - | \$ - | \$ - | \$ - | \$ (1,297) |
| Non-controlling interests | - | - | - | - | - | - | - | - | 211,505 | 211,505 |
| BALANCE AT DECEMBER 31, 2019 | \$ 1,593,246 | \$ 551,531 | \$ 213,042 | \$ 201,090 | \$ 255,807 | \$ (278,472) | \$ (33,033) | \$ (102,122) | \$ 842,432 | \$ 3,243,521 |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| | 2019 | 2018 |
|---|--------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss) income before income tax | \$ (115,392) | \$ 86,999 |
| Adjustments for: | | |
| Depreciation expense | 230,257 | 198,469 |
| Amortization expense | 3,903 | 4,680 |
| Expected credit impairment loss recognized (reversed) | 181,335 | (21,377) |
| Net (gain) on financial assets at fair value through profit or loss | (880) | (821) |
| Interest expense | 40,634 | 33,428 |
| Interest income | (13,871) | (14,452) |
| Dividend income | (837) | (2,485) |
| Share-based compensation expense | 23,002 | 2,088 |
| Share of (profit) loss of associates and joint ventures accounted for using the equity method | 103,825 | 91,943 |
| Loss (gain) on disposal and write-down of property, plant and equipment | (2,602) | 6,068 |
| Gain on disposal of investment | (49,298) | (19,829) |
| Impairment loss recognized on non-financial assets | 4,539 | - |
| Loss on inventory valuation and obsolescence | 27,886 | 27,898 |
| Amortization of prepayments for leases | - | 418 |
| Other income | (5) | - |
| Changes in operating assets and liabilities: | | |
| Notes receivable | (65,450) | 3,299 |
| Trade receivables | 239,889 | (8,146) |
| Trade receivables from related parties | (100,796) | (49,711) |
| Other receivables | 19,313 | 29,707 |
| Inventories | 50,017 | (142,309) |
| Other current assets | 50,809 | 8,988 |
| Other non-current assets | (3,635) | (3,070) |
| Notes payable | (70,047) | 77,113 |
| Notes payable to related parties | - | (15,291) |
| Trade payables | (39,864) | 95,677 |
| Trade payables to related parties | 3,725 | (79,330) |
| Other payables | 38,860 | 25,378 |
| Other current liabilities | (13,061) | 13,437 |
| Net defined benefit liabilities - non-current | (1,092) | 608 |
| Cash generated from operations | 541,245 | 349,377 |
| Interest received | 13,871 | 14,452 |
| Interest paid | (40,859) | (33,530) |
| Income tax paid | (43,945) | (50,062) |
| Net cash generated from operating activities | 470,312 | 280,237 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at fair value through other comprehensive income | - | (8,944) |

(Continued)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Acquisition of financial assets recognized initially at fair value through profit or loss | \$ (878,342) | \$ (45,600) |
| Disposal of financial assets recognized initially at fair value through profit or loss | 759,139 | 88,825 |
| Acquisition of long-term equity investment accounted for using the equity method | (76,906) | (119,647) |
| Proceeds from disposal of long-term equity investment accounted for using the equity method | 8,375 | 42,217 |
| Increase in prepayments for investment | (21,375) | - |
| Purchase of property, plant and equipment | (120,937) | (170,762) |
| Proceeds from disposal of property, plant and equipment | 69,143 | 9,295 |
| Increase in refundable deposits | (8,644) | (2,929) |
| Decrease in other receivables | 8,944 | - |
| Purchase of intangible assets | (1,077) | (2,665) |
| Cash inflow due to merger | 142,360 | - |
| Decrease (increase) in other financial assets | 631 | (7,536) |
| Dividends received | <u>5,042</u> | <u>7,635</u> |
| Net cash used in investing activities | <u>(113,647)</u> | <u>(210,111)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term borrowings | (120,006) | 137,249 |
| Increase (decrease) in short-term notes and bills payable | 70,000 | (100,000) |
| Proceeds from long-term borrowings | 920,000 | 610,000 |
| Repayments of long-term borrowings | (770,000) | (652,893) |
| Dividends paid to owners of the Company | (62,043) | (91,462) |
| Payments for buy-back of treasury shares | (17,422) | (150,185) |
| Purchase of treasury shares by employees | 81,141 | - |
| Acquisition of interests in subsidiaries | (9,084) | (5,894) |
| Proceeds from sale of investments in subsidiaries | 10,455 | - |
| Change in non-controlling interests | (17,781) | (43,685) |
| Repayments of the principal portion of lease liabilities | <u>(40,939)</u> | <u>-</u> |
| Net cash generated from (used in) financing activities | <u>44,321</u> | <u>(296,870)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | | |
| | <u>(50,532)</u> | <u>(7,913)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 350,454 | (234,657) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>1,237,725</u> | <u>1,472,382</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 1,588,179</u> | <u>\$ 1,237,725</u> |

(Continued)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

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

1. GENERAL INFORMATION

K LASER Technology Inc. (the “Company”) was incorporated in Hsinchu Science-Based Industrial Park in April 1988, and mainly engaged in the research and development, production, manufacture and sales of holographic products, specific materials and equipment for holographic embossing products, optical coating evaporation, as well as import and export trades of related products.

On December 9, 1999, the Company’s shares began trading on the Taipei Exchange (TPEX), and were subsequently listed on the Taiwan Stock Exchange (TWSE) on September 17, 2001.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 30, 2020.

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

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the accounting policies of the Company and its subsidiaries (collectively referred to as the “Group”):

1) IFRS 16 “Leases”

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

Definition of a lease

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

The Group as lessee

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

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

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets for assessing the impairment.

The Group also applies the following practical expedients:

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

The lessee's weighted average incremental borrowing rate used by the Company to calculate lease liabilities recognized on January 1, 2019 was 1.53%. The reconciliation between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is presented as follows:

| | |
|---|-------------------|
| Future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 | \$ 315,727 |
| Less: Recognition exemption for short-term leases | (27,323) |
| Less: Recognition exemption for leases of low-value assets | <u>(250)</u> |
| Undiscounted amounts on January 1, 2019 | <u>\$ 288,154</u> |
| Lease liabilities recognized on January 1, 2019 | <u>\$ 260,684</u> |

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

| | As Originally Stated on January 1, 2019 | Adjustments Arising from Initial Application | Restated on January 1, 2019 |
|--------------------------------------|--|---|--|
| Prepayments for leases - current | \$ 410 | \$ (410) | \$ - |
| Prepayments for leases - non-current | 19,363 | (19,363) | - |
| Right-of-use assets | <u>-</u> | <u>280,457</u> | <u>280,457</u> |
| Total effect on assets | <u>\$ 19,773</u> | <u>\$ 260,684</u> | <u>\$ 280,457</u> |
| Other liabilities - current | \$ - | \$ 40,864 | \$ 40,864 |
| Other liabilities - non-current | <u>-</u> | <u>219,820</u> | <u>219,820</u> |
| Total effect on liabilities | <u>\$ -</u> | <u>\$ 260,684</u> | <u>\$ 260,684</u> |

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change. There is no significant effect of the Group adopting IFRIC 23 on January 1, 2019.

3) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulates that if a contractual term of a financial asset permits the issuer (i.e., the debtor) to prepay a debt instrument or permits the holder (i.e., the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of the principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explain that reasonable compensation may be paid or received by either of the parties, i.e., a party may receive reasonable compensation when it chooses to terminate the contract early.

4) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings.

5) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group applied the above

amendments prospectively.

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

| New IFRSs | Effective Date Announced by IASB |
|--|---|
| Amendments to IFRS 3 “Definition of a Business” | January 1, 2020 (Note 1) |
| Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform” | January 1, 2020 (Note 2) |
| Amendments to IAS 1 and IAS 8 “Definition of Material” | January 1, 2020 (Note 3) |

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

- 1) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets by the Group must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

- 2) Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

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

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

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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated.

2) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 “Financial Instruments: Presentation”, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations

Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 11, Table 6 and Table 7 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value.

If the measurement of identifiable assets and liabilities resulting from business combination has not been completed, a provisional amount is recognized at the balance sheet and retrospective adjustments of additional assets or liabilities are recognized during the measurement period to reflect new information obtained regarding the facts and circumstances that existed on the acquisition date.

f. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

If the Group dispose of all equity of a foreign operation or a subsidiary of the foreign operation and then lose their control over the foreign operation or the subsidiary, or if the equity retained after disposal of the joint agreement of a foreign operation or an associate is a financial assets and is treated in accordance with the accounting policy for financial instruments, then accumulated exchange differences attributable to proprietors of the Group and relevant to the foreign operation are reclassified as profit or loss.

The partial disposal of a subsidiary of foreign operation did not result in a loss of control since the accumulated exchange difference was proportionally re-attributed to the non-controlling interest of the subsidiary, and not recognized as profit or loss. On the disposal of a foreign operation, all of the

exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

g. Inventories

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

h. Investments in associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

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

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint

venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

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

i. Property, plant and equipment

Property, plant and equipment are initially measured at cost less accumulated depreciation and accumulated impairment loss.

The depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If their respective lease terms are shorter than their useful lives, such assets are depreciated over their lease terms. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

j. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method.

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

k. Goodwill

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

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

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

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

l. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

m. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

n. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at fair value through other comprehensive income ("FVTOCI").

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 29.

ii. Financial assets at amortized cost

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

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

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

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

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

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;

- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition or 3 to 12 months from the acquisition date, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

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

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

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

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.

- ii. Overdue financial assets unless the Group has reasonable and corroborative information to support a more lagged default criterion.

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

- c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

- 2) Equity instruments

Debt and equity instruments issued by an entity in the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by an entity in the Group are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

- 3) Financial liabilities

- a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities is held for trading. Financial liabilities held for trading are stated at fair value, and any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses.

Fair value is determined in the manner described in Note 29.

- b) Derecognition of financial liabilities

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

- o. Provisions

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

uncertainties surrounding the obligation.

p. Revenue recognition

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

Revenue from the sale of goods

Revenue from the sale of goods comes from sales of holographic and optoelectronic products. Sales of products are recognized as revenue when the customer obtains control of the promised assets, that is, the goods are delivered to the customer's specific location and the performance obligation has been satisfied.

The Group does not recognize revenue on processing of materials because this process does not involve a transfer of control.

q. Leasing

2019

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

1) The Group as lessor

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

When the Group subleases a right-of-use asset, the classification of sublease is based on the right-of-use asset (not the underlying asset). However, if the main lease is a short-term lease under the recognition exemption, the sub-lease is classified as an operating lease.

Lease payments from operating leases after deduction of lease incentives are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms in accordance with IAS 17.

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

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments (including fixed payments, substantial fixed payments, variable lease payments based on an index or a rate, the amount the lessee is expected to pay under the residual value guarantee, the exercise price of the purchase option that is reasonably believed to be exercised and the lease termination penalty

reflected in the lease period less the current value of lease incentives received). The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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

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

2018

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

r. Borrowing costs

The borrowing cost which occurs due to the acquisition of assets is part of the cost of the assets, until the assets are ready for their intended use or to be sold, when all necessary activities are completed.

If the temporary investment for which specific loans are obtained is earned before eligible capital expenditure occurs, the investment income earned shall be subtracted from the borrowing cost eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

s. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Other long-term employee benefits

Other long-term employee benefits have the same accounting treatment as retirement benefit plans, but the relevant amount of remeasurement is recognized in profit or loss.

t. Share-based payment arrangements

Share-based payment of interests to employees is measured at fair value of equity instruments at the grant date.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding adjustment in capital reserve - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

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

u. Treasury shares

When the Group buys back issued shares as treasury shares, the cost paid will be debited to the treasury shares and recognized as a decrease in shareholders' equity.

The transfer of treasury shares to employees is performed in accordance with IFRS Bulletin No. 2 "Share-based Payments". When canceling treasury shares, treasury shares is credited, and capital reserve - share premium and share capital are debited in proportion to equity. If the book value of treasury shares is higher than the total value of face value and share premium, the difference will offset the capital reserve generated by treasury shares of the same type, and if there is a shortage, the reserve surplus will be debited. On the contrary, the difference is credited to the capital reserve generated by the similar transactions of treasury shares. The book value of treasury shares is calculated by the weighted average method.

The holding of the Company's shares by its subsidiaries is treated as treasury shares.

v. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Cash on hand and revolving funds | \$ 25,148 | \$ 16,057 |
| Checking accounts and demand deposits | 1,388,075 | 1,031,110 |
| Cash equivalents | | |
| Time deposits | <u>174,956</u> | <u>190,558</u> |
| | <u>\$ 1,588,179</u> | <u>\$ 1,237,725</u> |

The market rate intervals of cash in bank at the end of the reporting period (interest rate for checking deposits: 0%) were as follows:

| | December 31 | |
|-----------------|----------------|--------------|
| | 2019 | 2018 |
| Demand deposits | 0.001%-0.3939% | 0.001%-0.48% |
| Time deposits | 0.03%-5% | 0.03%-6.75% |

The Group's bank deposits had been reclassified to other current assets and other non-current assets for the following purposes:

| | December 31 | |
|--------------------------------|------------------|-------------------|
| | 2019 | 2018 |
| Other current assets (Note 19) | | |
| Banker's acceptance | \$ 67,318 | \$ 103,002 |
| Letter of guarantee | 24 | 3,667 |
| Performance bond | <u>3,012</u> | <u>-</u> |
| | <u>\$ 70,354</u> | <u>\$ 106,669</u> |

| | December 31 | |
|--|-----------------|-----------------|
| | 2019 | 2018 |
| Other non-current assets (Note 19) | | |
| Security deposit for leasing of land in Hsinchu Science Park | <u>\$ 5,000</u> | <u>\$ 5,000</u> |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---------------------------------|-------------------|------------------|
| | 2019 | 2018 |
| Non-derivative financial assets | | |
| Fund's beneficiary certificate | \$ 29,577 | \$ 85,324 |
| Structured deposits | <u>172,200</u> | <u>-</u> |
| | <u>\$ 201,777</u> | <u>\$ 85,324</u> |

8. NOTES RECEIVABLE AND TRADE RECEIVABLES

| | December 31 | |
|--|--------------------|-------------|
| | 2019 | 2018 |

Notes receivable

| | | |
|---|------------|-----------|
| Gross carrying amount at amortized cost | \$ 105,839 | \$ 40,335 |
|---|------------|-----------|

Trade receivables

| | | |
|---|-------------------|---------------------|
| Gross carrying amount at amortized cost | \$ 979,566 | \$ 1,220,224 |
| Less: Allowance for impairment loss | (69,508) | (41,458) |
| | <u>\$ 910,058</u> | <u>\$ 1,178,766</u> |

| | December 31 | |
|--|--------------------|-------------|
| | 2019 | 2018 |

Other receivables to related parties (Note 30)

| | | |
|---|-------------------|-------------------|
| Gross carrying amount at amortized cost | \$ 625,330 | \$ 524,534 |
| Less: Allowance for impairment loss | 151,678 | - |
| | <u>\$ 473,652</u> | <u>\$ 524,534</u> |

The average credit period of sales of goods was 90 to 150 days and no interest was charged on trade receivables. In order to mitigate credit risk, management of the Group has assigned a dedicated team responsible for determining line of credit, credit approval and other monitoring procedures to ensure that appropriate actions are taken to recover the overdue receivables. In addition, the Group will assess the recoverable amount of each receivable on the balance sheet date to ensure the appropriate allocation of impairment loss for uncollectible trade receivables. Accordingly, management of the Group believes that the credit risk of the Group has been significantly reduced.

The Group's historical credit loss experience shows that the standard for estimation of expected credit loss varies among its subsidiaries and credit loss of customers in various industries will also be different. Therefore, the expected credit losses are estimated using a provision matrix by reference to different regions and industry customers, and overdue trade receivables or different billing cycles.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The aging analysis of trade receivables was as follows:

| | December 31 | |
|--------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Not past due | \$ 1,215,885 | \$ 1,235,145 |
| 0-60 days | 144,974 | 257,107 |
| 61-90 days | 32,435 | 43,452 |
| 91-180 days | 48,457 | 68,174 |
| 181-360 days | 33,147 | 91,839 |
| More than 361 days | 129,998 | 49,041 |
| Total | <u>\$ 1,604,896</u> | <u>\$ 1,744,758</u> |

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

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|-------------------|------------------|
| Balance at January 1 | \$ 41,458 | \$ 63,731 |
| Add: Impairment loss recognized | 181,335 | (21,377) |
| Less: Amounts written off | (878) | (485) |
| Foreign exchange gains and losses | <u>(729)</u> | <u>(411)</u> |
| Balance at December 31 | <u>\$ 221,186</u> | <u>\$ 41,458</u> |

9. INVENTORIES

| | <u>December 31</u> | |
|------------------|--------------------|-------------------|
| | <u>2019</u> | <u>2018</u> |
| Finished goods | \$ 537,909 | \$ 502,349 |
| Work in progress | 50,849 | 47,644 |
| Raw materials | 239,296 | 333,879 |
| Merchandise | <u>86,772</u> | <u>95,665</u> |
| | <u>\$ 914,826</u> | <u>\$ 979,537</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$4,014,862 thousand and \$4,108,357 thousand, respectively. The cost of goods sold for the years ended December 31, 2019 and 2018 included inventory write-downs of \$27,886 thousand and \$27,898 thousand, respectively.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity instruments

| | <u>December 31</u> | |
|--|--------------------|------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>Non-current</u> | | |
| Domestic investment - unlisted shares | | |
| CM Visual Technology Co., Ltd. | \$ 8,520 | \$ 37,050 |
| China Development Biomedical Venture Co., Ltd. | 28,161 | 29,978 |
| Aether Precision Technology Inc. | <u>1,249</u> | <u>-</u> |
| | <u>\$ 37,930</u> | <u>\$ 67,028</u> |

| | <u>December 31</u> | |
|--|--------------------|------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>Non-current</u> | | |
| Foreign investment - unlisted shares | | |
| Bright Triumph Limited | \$ 54,370 | \$ 48,660 |
| Shenzhen Zhenhuajia Environmental Protection Co., Ltd. | <u>10,166</u> | <u>10,691</u> |
| | <u>\$ 64,536</u> | <u>\$ 59,351</u> |

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management of the Group elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

11. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

| Investment Company | Name of Subsidiary | Nature of Activities | Proportion of Ownership | |
|---|--|--|-------------------------|-------------------|
| | | | December 31, 2019 | December 31, 2018 |
| K Laser Technology Inc. | K Laser International Co., Ltd. (International) | Reinvestment | 100% | 100% |
| K Laser Technology Inc. | K Laser China Group Co., Ltd. (China Group) | Reinvestment | 100% | 100% |
| K Laser Technology Inc. | Optivision Technology Inc. (Optivision Technology) | R&D and manufacturing of precision optical components | 46% | 47% |
| K Laser Technology Inc. | Everest Display Inc. (Everest Display) | Production and sales of optical instruments and equipment | 80% | 79% |
| K Laser Technology Inc. | Insight Medical Solutions Inc. (Insight Medical) | R&D and sales of gastrointestinal endoscopy and other businesses | 44% | 34% |
| K Laser Technology Inc. and China Group Holding International | iWin Technology Co., Ltd. (iWin) | Reinvestment | 100% | 100% |
| International | K Laser Technology (Korea) Co., Ltd. (K Laser Korea) | Holographic products manufacturing and sales | 100% | 86% |
| International | K Laser Technology (Thailand) Co., Ltd. (K Laser Thailand) | Holographic products manufacturing and sales | 83% | 83% |
| International | K Laser Technology (USA) Co., Ltd. (K Laser USA) | Holographic product sales | 80% | 80% |
| International | K Laser IMEA Co., Ltd. (IMEA) | Reinvestment | 100% | 100% |
| International | Amagic Technologies U.S.A. (Dubai) (Amagic Dubai) | Holographic product sales agent | 100% | 100% |
| International | K Laser Technology Japan Co., Ltd. (K Laser Japan) | Holographic products manufacturing and sales | 70% | 70% |
| China Group | K Laser China Group Holding Co., Limited (China Group Holding) | Reinvestment | 99.60% | 99.60% |
| China Group | Holoprint Co., Ltd. (Holoprint) | Reinvestment | 100% | 100% |
| China Group Holding | K Laser Technology (HK) Co., Ltd. (K Laser Hong Kong) | Holographic product sales agent | 100% | 100% |
| China Group Holding | Holomagic Co., Ltd. (Holomagic) | Reinvestment | 100% | 100% |
| China Group Holding | Top Band Investment Limited (Top Band) | Reinvestment | 100% | 100% |
| Holomagic | Treasure Access Limited (Treasure) | Reinvestment | 100% | 100% |
| Top Band | Union Bloom Limited (Union) | Reinvestment | 100% | 100% |
| Optivision Technology Inc. | Bright Triumph Limited | Reinvestment | 100% | 100% |
| Bright Triumph Limited | Ningbo Optivision Technology Co., Ltd. | Optical film processing | 100% | 100% |

(Continued)

| Investment Company | Name of Subsidiary | Nature of Activities | Proportion of Ownership | |
|--------------------------------|--|--|-------------------------|-------------------|
| | | | December 31, 2019 | December 31, 2018 |
| Treasure | Wuxi K Laser Technology Co., Ltd. (Wuxi K Laser) | Holographic products manufacturing and sales | 100% | 100% |
| Treasure | Hunan Herui Laser Technology Co., Ltd. (Hunan Herui Laser) | Holographic products manufacturing and sales | 49% | 49% |
| Union | Dongguan K Laser Technology Co., Ltd. (K Laser Dongguan) | Holographic products manufacturing and sales | 100% | 100% |
| IMEA | Amagic Holographics India Private Limited (K Laser India) | Holographic products manufacturing and sales | 100% | 100% |
| iWin | Finity Laboratories (Finity) | Holographic technology research and development | 100% | 100% |
| Everest Display Inc. | Everest Display International Inc. | Reinvestment | 100% | 100% |
| Insight Medical Solutions Inc. | Insight Medical Solutions Holdings Inc. (IMS Holding) | Reinvestment | 100% | - |
| Insight Medical Solutions Inc. | Yun Chuang Medical Materials Co., Ltd. | Sales of gastrointestinal endoscopy and other businesses | 80% | - |
| IMS Holding | Chun Yao Medical Technology (Wuxi) Co., Ltd. | R&D and sales of gastrointestinal endoscopy and other businesses | 100% | - |

(Concluded)

Remarks:

1. K Laser China Group Co., Ltd. was established in British Virgin Islands in October 2010, and mainly engaged in reinvestment.
2. K Laser China Group Holding Co., Limited was established in British Cayman Islands in March 2008, and invested directly in Wuxi K Laser Technology Co., Ltd, Dongguan K Laser Technology Co., Ltd., K Laser Technology (HK) Co., Ltd., iWin Technology Co., Ltd. and Finity Laboratories.
3. K Laser International Co., Ltd. was established in British Cayman Islands in October 2010, and mainly engaged in investment. The Company invested in entities in America and Asia indirectly through K Laser International Co., Ltd. which mainly engaged in production, sale, research, development and investment of holographic products and optical fiber communication related components.
4. Amagic Technologies, U.S.A. (Dubai) was established in 1996, and mainly engaged in sale of holographic products and also served as an agent for holographic products.
5. K Laser Technology (Korea) Co., Ltd. was established in Korea in August 2002, and mainly engaged in manufacturing and sale of holographic products.
6. K Laser Technology (Thailand) Co., Ltd. was established in March 1996, and mainly engaged in manufacturing and sale of holographic products.

7. K Laser Technology (USA) Co., Ltd. was established in February 1993, with the principal office located in California, USA. It is mainly engaged in the sale of holographic products.
8. K Laser Technology Japan Co., Ltd. was established in Japan in 2003, and mainly engaged in manufacturing and sale of holographic products.
9. Amagic Holographics India Private Limited was established in India in 2003, and mainly engaged in manufacturing and sale of holographic products.
10. Finity Laboratories was established in the USA in 2001, and mainly engaged in research and development of holographic technology.
11. Hunan Herui Laser Technology Co., Ltd. was established in China in November 2009, and mainly engaged in environmental friendly packaging materials and anti-counterfeiting products.
12. Everest Display Inc. was approved and established on July 20, 2001, and mainly engaged in the production and sale of optical instruments and wireless communication mechanical equipment.
13. Optivision Technology Co., Ltd. was approved and established on July 13, 2004, and mainly engaged in the research and development and manufacturing of precision optical components, whose products were used in small and medium-sized tablets, mobile phones, notebook computers and optical lenses.
14. Ningbo Optivision Technology Co., Ltd. was established in China in May 2008 and mainly engaged in optical film processing.
15. Insight Medical Solutions Inc. was approved and established on April 23, 2015, and mainly engaged in the research and development of gastrointestinal endoscopy and other businesses. It was originally an associate accounted for using the equity method. The Group participated in the cash capital increase in December 2019. After the capital increase, the Group's shareholding ratio increased to 44% and gained control of Insight Medical Solutions Inc. Therefore, it has been listed as a subsidiary since December 2019.

b. Details of subsidiary that have material non-controlling interests

| Name of Subsidiary | Principal Place of Business | Proportion of Ownership and Voting Rights Held by Non-controlling Interests | |
|----------------------------|-----------------------------|---|------|
| | | December 31 | |
| | | 2019 | 2018 |
| Optivision Technology Inc. | Hsinchu City | 54% | 53% |

| Name of Subsidiary | Profit (Loss) Allocated to Non-controlling Interests For the Year Ended December 31 | | Accumulated Non-controlling Interests December 31 | |
|----------------------------|---|-------------|---|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Optivision Technology Inc. | \$ (10,115) | \$ (47,002) | \$ 399,865 | \$ 398,654 |

Summarized financial information in respect of Optivision Technology Inc. that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Optivision Technology Inc. and its subsidiaries

| | December 31 | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| Current assets | \$ 974,194 | \$ 965,984 |
| Non-current assets | 277,973 | 289,357 |
| Current liabilities | (505,038) | (503,204) |
| Non-current liabilities | (9,215) | (-) |
| Equity | <u>\$ 737,914</u> | <u>\$ 752,137</u> |
| | 2019 | 2018 |
| Revenue | <u>\$ 1,367,166</u> | <u>\$ 1,304,486</u> |
| Net profit (loss) from continuing operations | <u>\$ (5,428)</u> | <u>\$ (87,243)</u> |
| Profit (loss) for the year | <u>\$ (19,279)</u> | <u>\$ (88,678)</u> |
| Other comprehensive income (loss) for the year | <u>2,413</u> | <u>72,020</u> |
| Total comprehensive income (loss) for the year | <u>\$ (16,866)</u> | <u>\$ (160,698)</u> |
| Net cash inflow (outflow) from: | | |
| Operating activities | \$ 42,469 | \$ 18,887 |
| Investing activities | (20,827) | (41,497) |
| Financing activities | (3,762) | (47,358) |
| Change in exchange rates | (3,146) | (1,064) |
| Net cash inflow (outflow) | <u>\$ 14,734</u> | <u>\$ (71,032)</u> |

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

a. Investments in associates

| Name of Investee | Nature of Activities | Principal Place of Business | December 31, 2019 | | December 31, 2018 | |
|--|--|-----------------------------|-------------------|----------------|-------------------|----------------|
| | | | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| <u>Individually immaterial associates</u> | | | | | | |
| Wellcome Co., Ltd. | Manufacturing, processing and trading of fluorescent pigments and dyes | Yunlin County | \$ 110,335 | 33 | \$ 105,274 | 33 |
| Insight Medical Solutions Inc. | R&D and sales of gastrointestinal endoscopy and other businesses | Hsinchu City | - | - | 72,197 | 34 |
| Guangfeng Optoelectronics (Wuxi) Co., Ltd. | Production and sale of optical instruments | China | 35,519 | 45 | 52,382 | 45 |
| Jiangsu Xinguang Laser Packing Materials Co., Ltd. | Production of special film coating, decorative film and environmental friendly transfer paper. | China | 148,749 | 33 | 180,377 | 33 |
| Foshan Donglin Packing Materials Co., Ltd. | Production of cigarette packaging materials and extended products | China | 35,043 | 25 | 34,875 | 25 |

(Continued)

| Name of Investee | Nature of Activities | Principal Place of Business | December 31, 2019 | | December 31, 2018 | |
|---|---|-----------------------------|-------------------|----------------|-------------------|----------------|
| | | | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| Hunan Hexin Packing Materials Co., Ltd. | Mainly engaged in the production, processing and sales of films and cigarette packs, and cigarette paper segmentation | China | \$ 205,521 | 49 | \$ 190,337 | 49 |
| Boxlight Corporation | Production and sales of optical instruments | USA | 22,158 | 25 | 107,112 | 29 |
| CIO Tech Ltd. | Investment holding | Cayman Islands | 21,310 | 24 | - | - |
| Prepayment for investment | | | <u>21,375</u> | - | <u>-</u> | - |
| | | | <u>\$ 600,010</u> | | <u>\$ 742,554</u> | |

(Concluded)

Insight Medical Solutions Inc. is mainly engaged in the research and development of gastrointestinal endoscopy and other businesses. It was originally an associate accounted for using the equity method. The Group participated in the cash capital increase in December 2019. After the capital increase, the Group's shareholding ratio increased to 44% and gained control of Insight Medical Solutions Inc. Therefore, it has been listed as a subsidiary since December 2019, refer to Notes 11 and 27. As a result of gaining control, the disposal of investment gain from originally held equity investment was \$40,764 thousand and accounted as non-operating income and expenses under disposal of investment gain.

The Group sold the equity of Jiangyin K Laser Technology Co., Ltd. for RMB3,000 thousand to non-related party, Jiangsu Xincheng Printing Group Co., Ltd., in July 2018, and the transaction resulted in a loss on disposal of approximately RMB355 thousand.

Information on the fair value of quoted market prices of associates is as follows:

| | (In Thousands) | |
|----------------------|-------------------------------------|--------------|
| | For the Year Ended December 31 2019 | 2018 |
| Boxlight Corporation | US\$ 3,256 | US\$ 3,520 |
| | NT\$ 97,615 | NT\$ 108,117 |

b. Summarized information of individually immaterial associates

| | 2019 | 2018 |
|-------------------------------------|---------------------|--------------------|
| Share of the Group | | |
| Net loss from continuing operations | \$ (103,825) | \$ (91,943) |
| Other comprehensive (loss) income | (768) | 2,351 |
| Total comprehensive loss | <u>\$ (104,593)</u> | <u>\$ (89,592)</u> |

In 2019 and 2018, the Group recognized the share of profit or loss and other comprehensive income or loss of associates accounted for using the equity method based on the financial statements that were audited during the same period. Some of the associates' financial statements have been audited by other accountants. The abovementioned investments accounted for using the equity method amounted to NT\$110,335 thousand and NT\$105,274 thousand for the years ended December 31, 2019 and 2018, respectively. Investment gains recognized by the abovementioned associates under the equity method amounted to NT\$9,460 thousand and NT\$8,016 thousand in 2019 and 2018, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

| | For the Year Ended December 31 | |
|--|---------------------------------------|---------------------------|
| | 2019 | 2018 |
| Land | \$ 111,734 | \$ 105,749 |
| Buildings | 399,161 | 429,829 |
| Machinery and equipment | 428,785 | 478,711 |
| Other equipment | 179,136 | 179,142 |
| Construction in progress and equipment pending further inspections | <u>70,861</u> | <u>53,312</u> |
| | <u>\$1,189,677</u> | <u>\$1,246,743</u> |

| | Land | Buildings | Machinery and Equipment | Other Equipment | Construction in Progress | Total |
|--|-------------------|---------------------|--------------------------------|------------------------|---------------------------------|---------------------|
| Cost | | | | | | |
| Balance at January 1, 2019 | \$ 105,749 | \$ 1,022,191 | \$ 1,930,941 | \$ 626,571 | \$ 53,312 | \$ 3,738,764 |
| Additions | - | 3,901 | 46,050 | 16,485 | 48,404 | 114,840 |
| Disposals | - | (8,545) | (164,936) | (14,275) | (13,468) | (201,224) |
| Acquisition from business combination | - | - | 12,079 | 33,402 | 14,995 | 60,476 |
| Reclassification | - | 8,094 | 10,033 | 22,899 | (31,232) | 9,794 |
| Net exchange differences | <u>5,985</u> | <u>(12,685)</u> | <u>(28,364)</u> | <u>(7,431)</u> | <u>(1,150)</u> | <u>(43,645)</u> |
| Balance at December 31, 2019 | <u>\$ 111,734</u> | <u>\$ 1,012,956</u> | <u>\$ 1,805,803</u> | <u>\$ 677,651</u> | <u>\$ 70,861</u> | <u>\$ 3,679,005</u> |
| Accumulated depreciation and impairment | | | | | | |
| Balance at January 1, 2019 | \$ - | \$ 592,362 | \$ 1,452,230 | \$ 447,429 | \$ - | \$ 2,492,021 |
| Depreciation expenses | - | 33,602 | 101,291 | 48,508 | - | 183,401 |
| Impairment losses | - | - | 995 | 3,544 | - | 4,539 |
| Disposals | - | (7,853) | (156,116) | (13,927) | - | (177,896) |
| Acquisition from business combination | - | - | 4,298 | 14,006 | - | 18,304 |
| Reclassification | - | 3,656 | 4,678 | 3,867 | - | 2,845 |
| Net exchange differences | <u>-</u> | <u>(7,972)</u> | <u>(21,002)</u> | <u>(4,912)</u> | <u>-</u> | <u>(33,886)</u> |
| Balance at December 31, 2019 | <u>\$ -</u> | <u>\$ 613,795</u> | <u>\$ 1,377,018</u> | <u>\$ 498,515</u> | <u>\$ -</u> | <u>\$ 2,489,328</u> |
| Net, January 1, 2019 | <u>\$ 105,749</u> | <u>\$ 429,829</u> | <u>\$ 478,711</u> | <u>\$ 179,142</u> | <u>\$ 53,312</u> | <u>\$ 1,246,743</u> |
| Net, December 31, 2019 | <u>\$ 111,734</u> | <u>\$ 399,161</u> | <u>\$ 428,785</u> | <u>\$ 179,136</u> | <u>\$ 70,861</u> | <u>\$ 1,189,677</u> |
| Cost | | | | | | |
| Balance at January 1, 2018 | \$ 102,104 | \$ 1,018,878 | \$ 1,951,001 | \$ 599,328 | \$ 55,840 | \$ 3,727,151 |
| Additions | - | 8,119 | 93,990 | 36,901 | 34,498 | 173,508 |
| Disposals | - | (746) | (112,604) | (23,172) | - | (136,522) |
| Reclassification | - | 907 | 12,308 | 17,969 | (32,693) | (1,509) |
| Reversals | - | - | - | - | (4,897) | (4,897) |
| Net exchange differences | <u>3,645</u> | <u>(4,967)</u> | <u>(13,754)</u> | <u>(4,455)</u> | <u>564</u> | <u>(18,967)</u> |
| Balance at December 31, 2018 | <u>\$ 105,749</u> | <u>\$ 1,022,191</u> | <u>\$ 1,930,941</u> | <u>\$ 626,571</u> | <u>\$ 53,312</u> | <u>\$ 3,738,764</u> |
| Accumulated depreciation and impairment | | | | | | |
| Balance at January 1, 2018 | \$ - | \$ 563,835 | \$ 1,449,636 | \$ 421,921 | \$ - | \$ 2,435,392 |
| Depreciation expenses | - | 32,390 | 118,103 | 45,468 | - | 195,961 |
| Disposals | - | (510) | (99,030) | (21,619) | - | (121,159) |
| Reclassification | - | 203 | (4,988) | 4,899 | - | 114 |
| Net exchange differences | <u>-</u> | <u>(3,556)</u> | <u>(11,491)</u> | <u>(3,240)</u> | <u>-</u> | <u>(18,287)</u> |
| Balance at December 31, 2018 | <u>\$ -</u> | <u>\$ 592,362</u> | <u>\$ 1,452,230</u> | <u>\$ 447,429</u> | <u>\$ -</u> | <u>\$ 2,492,021</u> |
| Net, December 31, 2018 | <u>\$ 105,749</u> | <u>\$ 429,829</u> | <u>\$ 478,711</u> | <u>\$ 179,142</u> | <u>\$ 53,312</u> | <u>\$ 1,246,743</u> |

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

| | |
|----------------------------|-------------|
| Buildings | |
| Housings and constructions | 25-50 years |
| Ancillary equipment | 2-10 years |
| Machinery and equipment | 2-15 years |
| Other equipment | 2-11 years |

The property, plant and equipment of the Group prior to depreciation and the investment properties pledged as collateral for bank borrowings as of December 31, 2019 and 2018, were detailed as follows:

| | For the Year Ended December 31 | |
|----------------------------|---------------------------------------|-------------------|
| | 2019 | 2018 |
| Land | \$ 40,826 | \$ 38,538 |
| Housings and constructions | 165,249 | 169,217 |
| Investment properties | - | 4,583 |
| | <u>\$ 206,075</u> | <u>\$ 212,338</u> |

14. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

| | December 31, 2019 |
|--|------------------------------|
| <u>Carrying amounts</u> | |
| Land | \$ 165,879 |
| Buildings | 65,677 |
| Machinery and equipment | 13,165 |
| Transportation equipment | 4,938 |
| | <u>\$ 249,659</u> |
| | 2018 |
| Additions to right-of-use assets | <u>\$ 16,700</u> |
| <u>Depreciation charge for right-of-use assets</u> | |
| Land | \$ 10,967 |
| Buildings | 27,044 |
| Machinery and equipment | 1,828 |
| Transportation equipment | 4,570 |
| | <u>\$ 44,409</u> |

b. Lease liabilities - 2019

| | December 31, 2019 |
|-------------------------|------------------------------|
| <u>Carrying amounts</u> | |
| Current | \$ 38,882 |
| Non-current | <u>\$ 195,155</u> |

Range of discount rate for lease liabilities was as follows:

| | December 31, 2019 |
|--------------------------|------------------------------|
| Land | 1.4%-3.63% |
| Buildings | 1.5%-5.5% |
| Machinery and equipment | 1.5% |
| Transportation equipment | 1.5%-2.36% |

c. Other lease information

2019

| | For the Year Ended December 31, 2019 |
|---|---|
| Expenses relating to short-term leases | \$ 24,909 |
| Expenses relating to low-value asset leases | \$ 250 |
| Total cash outflow for leases | \$ (71,577) |

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

2018

The Company leased a plot of land from management of Hsinchu Science Industrial Park from October 16, 2018 to December 31, 2037, and rent payable will be adjusted according to the land price set by the government, payment to be paid in the future is as follows:

| Period | Amount |
|-----------------------|---------------|
| 2019-2037 (each year) | \$ 4,872 |

15. INVESTMENT PROPERTIES

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------|
| | 2019 | 2018 |
| Investment properties | \$ - | \$ 51,537 |
| | 2019 | 2018 |
| <u>Cost</u> | | |
| Balance at January 1 | \$ 59,360 | \$ 62,713 |
| Reclassification | (8,094) | (2,307) |
| Disposals | (49,615) | - |
| Net exchange differences | (1,651) | (1,046) |
| Balance at December 31 | \$ - | \$ 59,360 |
| <u>Accumulated Depreciation and Amortization</u> | | |
| Balance at January 1 | \$ 7,823 | \$ 5,517 |
| Depreciation expenses | 2,447 | 2,508 |

(Continued)

| | <u>2019</u> | <u>2018</u> |
|--------------------------|--------------|--------------------------------|
| Reclassification | \$ (3,656) | \$ (114) |
| Disposals | (6,401) | - |
| Net exchange differences | <u>(213)</u> | <u>(88)</u> |
| Balance at December 31 | <u>\$ -</u> | <u>\$ 7,823</u> (Concluded) |

The above investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

| | |
|----------------------------|-------------|
| Housings and constructions | 20-50 years |
| Ancillary equipment | 10 years |

The investment properties of the Group were valued with reference to appraisal report, the fair value of investment properties was \$98,091 thousand for the year ended December 31, 2018.

16. GOODWILL

| | December 31, 2019 |
|---|------------------------------|
| <u>Cost</u> | |
| Balance at January 1 | \$ - |
| Additional amounts recognized from business combination that occurred during the year | <u>85,782</u> |
| Balance at December 31 | <u>\$ 85,752</u> |
| | December 31, 2019 |
| <u>Accumulated impairment losses</u> | |
| Balance at January 1 | \$ - |
| Balance at December 31 | <u>-</u> |
| Carrying amounts at December 31 | <u>\$ 85,752</u> |

The Group gained control of Insight Medical Solutions Inc. on December 23, 2019 and recognized a goodwill of \$85,752 thousand, owing mainly to the benefit from an expected increase in the operating revenue of capsule endoscopy products in Taiwan and mainland China.

The recoverable amount of Insight Medical Solutions Inc. was determined based on a value in use calculation that used the cash flow projections in the financial budgets approved by management covering a 5-year period; the discount rate was 15.1%. The cash flows beyond that 5-year period have been extrapolated using a 2% per annum growth rate. Other key assumptions included budgeted revenue and budgeted gross margin, such assumptions were based on the past performance of the cash-generating unit and management's expectation of market development.

17. OTHER INTANGIBLE ASSETS

| | For the Year Ended December 31 | |
|--|---------------------------------------|------------------|
| | 2019 | 2018 |
| <u>Carrying amounts</u> | | |
| Computer software costs | \$ 4,092 | \$ 6,917 |
| Expertise | <u>44,373</u> | <u>-</u> |
| | <u>\$ 48,465</u> | <u>\$ 6,917</u> |
| | 2019 | 2018 |
| <u>Cost</u> | | |
| Balance at January 1 | \$ 20,996 | \$ 17,351 |
| Additions | 1,078 | 2,665 |
| Disposals | (148) | (848) |
| Acquisitions through business combinations | 44,373 | - |
| Reclassification | - | 1,850 |
| Net exchange differences | <u>(3)</u> | <u>(2)</u> |
| Balance at December 31 | <u>\$ 66,296</u> | <u>\$ 20,996</u> |
| | 2019 | 2018 |
| <u>Accumulated amortization and impairment</u> | | |
| Balance at January 1 | \$ 14,079 | \$ 10,269 |
| Amortization expenses | 3,903 | 4,680 |
| Disposals | (148) | (848) |
| Net exchange differences | <u>(3)</u> | <u>(2)</u> |
| Balance at December 31 | <u>\$ 17,831</u> | <u>\$ 14,079</u> |

Other intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|-------------------|-----------|
| Computer software | 2-5 years |
| Expertise | 15 years |

18. PREPAYMENTS FOR LEASES

| | December 31, 2018 |
|-------------|------------------------------|
| Current | \$ 410 |
| Non-current | <u>19,363</u> |
| | <u>\$ 19,773</u> |

For the year ended December 31, 2018, prepayments for leases included land use rights located in mainland China. The Group had adjusted the amount previously recognized in prepayments for leases to right-of-use assets as of January 1, 2019.

19. OTHER ASSETS

| | December 31 | |
|-------------------------------|--------------------|-------------------|
| | 2019 | 2018 |
| Tax deduction | \$ 19,677 | \$ 13,117 |
| Prepaid expenses and payments | 66,769 | 80,160 |
| Refundable deposits | 40,918 | 30,679 |
| Restricted assets (Note 6) | 75,354 | 111,669 |
| Others | 37,629 | 31,299 |
| | <u>\$ 240,347</u> | <u>\$ 266,924</u> |
| Current | \$ 162,723 | \$ 206,378 |
| Non-current | 77,624 | 60,546 |
| | <u>\$ 240,347</u> | <u>\$ 266,924</u> |

20. BORROWINGS

a. Short-term borrowings

| | December 31, 2019 | | December 31, 2018 | |
|--------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | Interest rate | Amount | Interest rate | Amount |
| Bank loans | 0.95%-3.58% | \$ 610,754 | 0.95%-4.32% | \$ 730,518 |
| Usance L/C loans payable | 0.63%-2.84% | 190,393 | 0.55%-4.05% | 180,635 |
| | | <u>\$ 801,147</u> | | <u>\$ 911,153</u> |

The Group's unsecured loans from bank were guaranteed by the Company, of which the chairman of the Company, Mr. Kuo Wei-Wu, and the director of the Company, Mr. Kuo Wei-Bin, acted as joint guarantor for some of the loans.

b. Short-term bills payable

| | December 31 | |
|---|--------------------|------------------|
| | 2019 | 2018 |
| Commercial paper | \$ 170,000 | \$ 100,000 |
| Less: Discounts on short-term bills payable | (57) | (40) |
| | <u>\$ 169,943</u> | <u>\$ 99,960</u> |

Outstanding short-term bills payable were as follows:

December 31, 2019

| Promissory Institution | Nominal Amount | Discount Amount | Carrying Amount | Interest Rate |
|-------------------------------|-----------------------|------------------------|------------------------|----------------------|
| Taiwan Bills | \$ 50,000 | \$ 12 | \$ 49,988 | 0.988% |
| ChungHwa Bills | 50,000 | 6 | 49,994 | 0.978% |
| Mega Bills | 50,000 | 16 | 49,984 | 0.978% |
| International Bills | 20,000 | 23 | 19,977 | 1.538% |
| | <u>\$ 170,000</u> | <u>\$ 57</u> | <u>\$ 169,943</u> | |

December 31, 2018

| Promissory Institution | Nominal Amount | Discount Amount | Carrying Amount | Interest Rate |
|------------------------|-------------------|-----------------|------------------|---------------|
| Mega Bills | \$ 50,000 | \$ 24 | \$ 49,976 | 0.958% |
| DahChung Bills | 50,000 | 16 | 49,984 | 0.988% |
| | <u>\$ 100,000</u> | <u>\$ 40</u> | <u>\$ 99,960</u> | |

c. Current portion of long-term liabilities

| | <u>December 31</u> | |
|------------------------------------|--------------------|------------------|
| | <u>2019</u> | <u>2018</u> |
| Current portion of long-term loans | <u>\$ 10,000</u> | <u>\$ 64,000</u> |

d. Long-term borrowings

| | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|--|--------------------------|---------------|--------------------------|---------------|
| | <u>Interest Rate %</u> | <u>Amount</u> | <u>Interest Rate %</u> | <u>Amount</u> |
| <u>Secured borrowings</u> | | | | |
| E. Sun Bank and Taipei Fubon Bank (lead banks of syndicated loan) | | | | |
| Mortgage loan from 2017/9 to 2020/9, repayment of principal from September 2019, to be repaid once every 6 months, non- revolving basis. It was fully paid off in December 2019. | - | \$ - | 1.79 | \$ 360,000 |
| E. Sun Bank and Taipei Fubon Bank (lead banks of syndicated loan) | | | | |
| Mortgage loan from 2017/9 to 2020/9, interest is paid on a quarterly basis and the principal is repaid in a one-off payment at maturity. It was fully paid off in December 2019. | - | - | 0.75 | 360,000 |
| Taipei Fubon Bank (lead bank of syndicated loan) | | | | |
| Mortgage loan from 2019/12 to 2022/12, interest is paid monthly. It needs to be revolved over several periods, but each revolving period must not exceed 6 months. | 1.79 | 360,000 | - | - |
| Taipei Fubon Bank (lead bank of syndicated loan) | | | | |
| Mortgage loan from 2019/12 to 2022/12, interest is paid monthly. It needs to be revolved over several periods, but each revolving period must not exceed 6 months. | 0.79 | 360,000 | - | - |

(Continued)

| | December 31, 2019 | | December 31, 2018 | |
|--|-------------------|---------------------|-------------------|-------------------|
| | Interest Rate % | Amount | Interest Rate % | Amount |
| <u>Unsecured borrowings</u> | | | | |
| JihSun Bank | | | | |
| Line of credit from 2018/11 to 2020/11, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was extended by 2 years from November 2019, maturity date is in November 2021. | 1.35 | 50,000 | 1.38 | 50,000 |
| Jihsun Bank | | | | |
| Line of credit from 2019/11 to 2021/11, interest is paid monthly, the principal is repaid in a one-off payment at maturity | 1.80 | 50,000 | | |
| KGI Bank | | | | |
| Line of credit from 2019/11 to 2021/11, interest is paid monthly, the principal is repaid in a one-off payment at maturity. | 1.15 | 100,000 | - | - |
| Taipei Fubon Bank | | | | |
| Line of credit from 2018/7 to 2020/5, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was extended by 2 years from May 2019, maturity date is in May 2021. | 1.24 | \$ 100,000 | 1.23 | \$ 100,000 |
| CTBC Bank | | | | |
| Line of credit from 2019/2 to 2020/10, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was extended by 2 years from August 2019, maturity date is in August 2021. | 1.35 | 50,000 | - | - |
| CTBC Bank | | | | |
| Line of credit from 2018/10 to 2020/10, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was fully paid off in January 2019. | - | - | 1.39 | 100,000 |
| Yuanta Bank | | | | |
| Line of credit from 2019/3 to 2021/3, interest is paid monthly, the principal is repaid in a one-off payment at maturity. | 1.30 | 100,000 | - | - |
| Yuanta Bank | | | | |
| Line of credit from 2018/3 to 2020/3, interest is paid monthly, the principal is repaid gradually upon maturity. It was fully paid off in January 2019. | - | - | 1.40 | 50,000 |
| Panhsin Bank | | | | |
| Line of credit from 2018/4 to 2020/4, interest is paid monthly, The principal is repaid each quarter from 13 months onwards in equal installments. It was extended by 2 years from June 2019, equal quarterly installments, maturity date is in June 2021. | 1.90 | \$ 20,000 | 1.90 | \$ 20,000 |
| Less: Current portion of long-term borrowings | | (10,000) | | (64,000) |
| | | <u>\$ 1,180,000</u> | | <u>\$ 976,000</u> |
| | | | | (Concluded) |

- 1) To acquire sufficient working capital and repay its debts, the Group signed a syndicated loan agreement with nine financial institutions on September 9, 2017, which was led by E. Sun Bank and Taipei Fubon Bank. The total amount of joint credit line was NT\$1,000,000 thousand. As of December 31, 2018, the actual amount transferred was NT\$720,000 thousand and loan balance was NT\$720,000 thousand. The syndicated loan was repaid in advance in December 2019.

According to the restrictions of syndicated loan agreement, the annual consolidated financial statements of the Group should maintain the following financial ratios until the Group has repaid full amount of debt under the agreement:

- (1) Current ratio (i.e. ratio of current assets to current liabilities) shall not be less than 100%.
 - (2) Debt ratio (i.e. ratio of total liabilities less cash and cash equivalents to tangible net worth) shall not be over 100%.
 - (3) Times interest earned ratio (i.e. sum of income before income tax, interest expenses, depreciation and amortization divided by interest expenses) shall not be less than 300%.
 - (4) Tangible net worth shall not be less than NT\$2,600,000 thousand.
- 2) To acquire sufficient working capital and repay its debts, the Group signed a syndicated loan agreement with nine financial institutions in November 2019, which was led by Taipei Fubon Bank. The total amount of joint credit line was NT\$800,000 thousand. As of December 31, 2018, the actual amount transferred was NT\$720,000 thousand and loan balance was NT\$720,000 thousand.

According to the restrictions of syndicated loan agreement, the annual consolidated financial statements of the Group should maintain the following financial ratios until the Group has repaid full amount of debt under the agreement:

- (1) Current ratio (i.e. ratio of current assets to current liabilities) shall not be less than 100%.
 - (2) Debt ratio (i.e. ratio of total liabilities less cash and cash equivalents to tangible net worth) shall not be over 100%.
 - (3) Times interest earned ratio (i.e. sum of income before income tax, interest expenses, depreciation and amortization divided by interest expenses) shall not be less than 300%.
 - (4) Tangible net worth shall not be less than NT\$2,600,000 thousand.
- 3) The abovementioned long-term loans were guaranteed jointly by Mr. Kuo Wei-Wu, the chairman of the Company. The syndicated loan of Taipei Fubon Bank was secured by property, plant and equipment and investment properties.

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

According to the aforementioned regulations, the Group recognized \$11,944 thousand and \$12,365 thousand as total expenses in the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018, respectively.

b. Defined benefit plans

The defined benefit plan adopted by the Company of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

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

| | December 31 | |
|---|--------------------|------------------|
| | 2019 | 2018 |
| Present value of defined benefit obligation | \$ 49,662 | \$ 44,878 |
| Fair value of plan assets | <u>(24,164)</u> | <u>(22,516)</u> |
| Net defined benefit liabilities | <u>\$ 25,498</u> | <u>\$ 22,362</u> |

Movements in net defined benefit liabilities (assets) were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities (Assets) |
|---|--|--|---|
| Balance at January 1, 2018 | \$ 41,887 | \$ (21,005) | \$ 20,882 |
| Service cost | | | |
| Current service cost | 285 | - | 285 |
| Past service cost | 1,432 | - | 1,432 |
| Net interest expense (income) | <u>471</u> | <u>(240)</u> | <u>231</u> |
| Recognized in profit or loss | <u>2,188</u> | <u>(240)</u> | <u>1,948</u> |
| Remeasurement | | | |
| Return on plan assets | - | (631) | (631) |
| Actuarial loss - changes in demographic assumptions | 560 | - | 560 |
| Actuarial loss - changes in financial assumptions | 477 | - | 477 |
| Actuarial loss - experience adjustments | <u>466</u> | <u>-</u> | <u>466</u> |
| Recognized in other comprehensive income | <u>1,503</u> | <u>(631)</u> | <u>872</u> |
| Contributions from employer | - | (640) | (640) |
| Others | <u>(700)</u> | <u>-</u> | <u>(700)</u> |

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities (Assets) |
|--|--|--|---|
| Balance at December 31, 2018 | \$ 44,878 | \$ (22,516) | \$ 22,362 |
| Service cost | | | |
| Current service cost | 344 | - | 344 |
| Past service cost | - | - | - |
| Net interest expense (income) | <u>444</u> | <u>(224)</u> | <u>220</u> |
| Recognized in profit or loss | <u>788</u> | <u>(224)</u> | <u>564</u> |
| Remeasurement | | | |
| Return on plan assets | - | (788) | (788) |
| Actuarial loss - changes in demographic assumptions | 729 | - | 729 |
| Actuarial loss - changes in financial assumptions | 949 | - | 949 |
| Actuarial loss - experience adjustments | <u>3,338</u> | <u>-</u> | <u>3,338</u> |
| Recognized in other comprehensive income | <u>5,016</u> | <u>(788)</u> | <u>4,228</u> |
| Contributions from employer | - | (636) | (636) |
| Benefits paid | <u>(1,020)</u> | <u>-</u> | <u>(1,020)</u> |
| Balance at December 31, 2019 | <u>\$ 49,662</u> | <u>\$ (24,164)</u> | <u>\$ 25,498</u> |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

| | 2019 | 2018 |
|-------------------------------------|---------------|-----------------|
| Aggregated by function | | |
| Operating costs | \$ 198 | \$ 173 |
| Selling and marketing expenses | 69 | 58 |
| General and administrative expenses | 223 | 1,640 |
| Research and development expenses | <u>74</u> | <u>77</u> |
| | <u>\$ 564</u> | <u>\$ 1,948</u> |

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

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

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

| | December 31 | |
|-------------------------------------|--------------------|-------------|
| | 2019 | 2018 |
| Discount rate(s) | 0.75% | 1.00% |
| Expected rate(s) of salary increase | 2.00% | 2.00% |

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

| | December 31 | |
|-------------------------------------|--------------------|-------------|
| | 2019 | 2018 |
| Discount rate(s) | | |
| 0.25% increase | \$ (965) | \$ (959) |
| 0.25% decrease | \$ 1,002 | \$ 996 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | \$ 972 | \$ 968 |
| 0.25% decrease | \$ (941) | \$ (938) |

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

| | December 31 | |
|---|--------------------|-------------|
| | 2019 | 2018 |
| Expected contributions to the plans for the next year | \$ 676 | \$ 564 |
| Average duration of the defined benefit obligation | 9.46 years | 10.17 years |

22. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|--------------------|--------------|
| | 2019 | 2018 |
| Number of shares authorized (in thousands) | 200,000 | 200,000 |
| Shares authorized | \$ 2,000,000 | \$ 2,000,000 |
| Number of shares issued and fully paid (in thousands) | 159,325 | 159,325 |
| Shares issued | \$ 1,593,246 | \$ 1,593,246 |

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

The Company's outstanding ordinary shares are adjusted as follows:

| | Number of Shares (In thousands) | Share Capital |
|----------------------------|--|----------------------|
| Balance at January 1, 2018 | 165,325 | \$ 1,653,246 |
| | | (Continued) |

| | | |
|---------------------------------------|----------------|------------------------------------|
| Less: Cancellation of treasury shares | (6,000) | \$ (60,000) |
| Balance at December 31, 2018 | <u>159,325</u> | <u>\$ 1,593,246</u> (Concluded) |

| | Number of Shares (In thousands) | Share Capital |
|---------------------------------------|---------------------------------------|---------------------|
| Balance at January 1, 2019 | 159,325 | \$ 1,593,246 |
| Less: Cancellation of treasury shares | <u>-</u> | <u>-</u> |
| Balance at December 31, 2019 | <u>159,325</u> | <u>\$ 1,593,246</u> |

b. Capital surplus

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | 2019 | 2018 |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1) | | |
| Ordinary shares premium | \$ 454,275 | \$ 454,275 |
| Treasure shares transactions | 14,901 | - |
| The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | 46,220 | 46,009 |
| <u>May only be used to offset a deficit (2)</u> | | |
| Changes in percentage of ownership interests in subsidiaries | 29,976 | 29,678 |
| <u>May not be used for any purpose</u> | | |
| Employee share options | <u>6,159</u> | <u>-</u> |
| | <u>\$ 551,531</u> | <u>\$ 529,962</u> |

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

c. Retained earnings and dividend policy

The shareholders of the Company held their regular meeting on May 31, 2019 and in that meeting, resolved the amendments to the Company's Articles of Incorporation (the "Articles"). The amendments explicitly stipulate that the proposal for profit distribution or offsetting of losses should be made at the end of each quarter. The board of directors is authorized to adopt a special resolution to distribute dividends and bonuses in cash and a report of such distribution should be submitted in the shareholders' meeting.

Under the dividends policy as set forth in the Articles after the amendments, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a special reserve for employees' compensation, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings in each quarter are accumulated as profit available for distribution, which shall be used by the Company's board of directors as the basis for proposing a distribution plan. The aforementioned profit shall be

distributed through the issuance of new shares in cash, subject to the resolution of the board of directors which requires over two-thirds of attending directors for authorization and more than half of attending directors for approval, and a report of such distribution should be submitted in the shareholders' meeting.

Under the dividends policy as set forth in the Articles before the amendments, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendments, refer to Note 23.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 were approved in the shareholders' meetings on May 31, 2019 and May 30, 2018, respectively, were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|-----------------|----------------------------------|-------------|-----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Legal reserve | \$ 6,583 | \$ 15,502 | \$ - | \$ - |
| Special reserve | 38,226 | - | - | - |
| Cash dividends | 62,043 | 91,462 | 0.41 | 0.56 |

The appropriation of earnings for 2019 was not proposed by the Company's board of directors on March 30, 2020 due to loss.

The profit distribution plan for 2019 is subject to the resolution of the shareholders' meeting to be held on May 28, 2020.

d. Other equity items

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

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Balance at January 1 | \$ (195,571) | \$ (177,585) |
| Recognized for the year | | |
| Exchange differences on translating the financial statements of foreign operations | (82,211) | (20,337) |
| Share of other comprehensive income from associates accounted for using the equity method | (768) | 2,351 |
| Disposal of partial interests in subsidiaries | 78 | - |
| Balance at December 31 | <u>\$ (278,472)</u> | <u>\$ (195,571)</u> |

The exchange differences arising on translation of foreign operation's net assets from its functional

currency to the Company's presentation currency (i.e. the New Taiwan Dollar) are recognized directly in other comprehensive income and also accumulated in the exchange differences on translation of foreign financial statements. Such amount accumulated in the exchange differences on translation of foreign financial statements will be reclassified to profit or loss when the foreign operation is disposed of.

2) Unrealized valuation gain (loss) on financial assets at FVTOCI

| | 2019 | 2018 |
|---|--------------------|-------------------|
| Balance at January 1 | \$ (5,574) | \$ 18,107 |
| Unrealized loss - equity instruments | (27,690) | (23,681) |
| Disposal of partial interests in subsidiaries | <u>231</u> | <u>-</u> |
| Balance at December 31 | <u>\$ (33,033)</u> | <u>\$ (5,574)</u> |

The equity instruments measured at fair value through other comprehensive income are measured at fair value. Subsequent changes in fair value are recognized in other comprehensive income and accumulated in other equity. At the time of disposal, the accumulated profit or loss is transferred directly to retained earnings and is not reclassified as profit or loss.

e. Treasury shares

1) Movements of treasury shares are as follows:

| 2019 | | | | |
|---|---|-------------------|--------------------|--|
| Purpose of Buy-back | Beginning Number of Shares | Additions | Deductions | Ending Number of Shares |
| Transferred to employees | 6,714,000 | 1,286,000 | (2,000,000) | 6,000,000 |
| The Company's shares held by subsidiaries | <u>-</u> | <u>2,750,000</u> | <u>-</u> | <u>2,750,000</u> |
| | <u>6,714,000</u> | <u>4,036,000</u> | <u>(2,000,000)</u> | <u>8,750,000</u> |
| 2018 | | | | |
| Purpose of Buy-back | Beginning Number of Shares | Additions | Deductions | Ending Number of Shares |
| Transferred to employees | 2,000,000 | 4,714,000 | - | 6,714,000 |
| Maintained the Company's creditability and shareholders' rights | <u>-</u> | <u>6,000,000</u> | <u>(6,000,000)</u> | <u>-</u> |
| | <u>2,000,000</u> | <u>10,714,000</u> | <u>(6,000,000)</u> | <u>6,714,000</u> |

2) The Company gained control over Insight Medical Solutions Inc. on December 23, 2019. At the time of acquisition, Insight Medical Solutions Inc. held shares of the Company, detailed information is as follows:

December 31, 2019

| Name of Subsidiary | Number of Shares | Amount Transferred to Treasury Shares | Price per Share as of December 31, 2019 |
|--------------------------------|-----------------------------|--|--|
| Insight Medical Solutions Inc. | <u>2,750,000</u> | <u>\$ 22,785</u> | <u>\$ 19.1</u> |

The transferred amount of shares held by Insight Medical Solutions Inc. had been adjusted according to the Company's shareholding ratio.

- 3) According to Article 28-2 of the Securities and Exchange Act, the number of shares bought back by a company shall not exceed 10% of the total number of shares issued by the Company, and the total amount paid to purchase the shares shall not exceed the sum of retained earnings plus share premium and realized capital surplus. According to the Securities and Exchange Act, treasury shares held by the Company shall neither pledge nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote. Shares held by Insight Medical Solutions are treated as treasury shares, except the rights to participate in any share issuance for cash and to vote, the rest are the same as general shareholders' rights.

f. Non-controlling interests

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------------|
| | 2019 | 2018 |
| Balance at January 1 (IAS 39) | \$ 701,404 | \$ 804,567 |
| Effect of retrospective application of IFRS 9 | - | 21,493 |
| Balance at January 1 | 701,404 | 826,060 |
| Other comprehensive income (loss) during the year | | |
| Net loss | (38,874) | (41,374) |
| Exchange differences on translating the financial statements of foreign entities | (6,027) | 1,891 |
| Unrealized gain (loss) on financial assets at FVTOCI | 2,927 | (37,594) |
| Acquisition from business combinations | 225,859 | - |
| Partial disposal of subsidiaries | 10,455 | - |
| Non-controlling interests arising from acquisition of subsidiaries | (9,084) | (5,894) |
| Dividends distributed by subsidiaries | (17,192) | (43,685) |
| Capital reduction by returning shares of subsidiaries | (589) | - |
| The Company's shares held by subsidiaries | (28,503) | - |
| Others | 2,056 | 2,000 |
| Balance at December 31 | <u>\$ 842,432</u> | <u>\$ 701,404</u> |

23. NET PROFIT FROM CONTINUING OPERATIONS

a. Employee benefits expense, depreciation and amortization expense

| | 2019 | | |
|---|-----------------------|--------------------------|---------------------------------------|
| | Operating Cost | Operating Expense | Non-operating Expense and Loss |
| Short-term employee benefits | <u>\$369,728</u> | <u>\$410,513</u> | <u>\$ -</u> |
| Retirement benefits | <u>\$ 6,346</u> | <u>\$ 6,162</u> | <u>\$ -</u> |
| Other employee benefits | <u>\$ 8,580</u> | <u>\$ 17,638</u> | <u>\$ -</u> |
| Depreciation expense | | | |
| Depreciation of property, plant and equipment | \$127,498 | \$ 52,494 | \$ 3,409 |
| | | | \$183,401 |

(Continued)

| | 2019 | | | |
|---------------------------------------|------------------|-------------------|--------------------------------|------------------|
| | Operating Cost | Operating Expense | Non-operating Expense and Loss | Total |
| Depreciation of right-of-use assets | \$ 26,572 | \$ 15,983 | \$ 1,854 | \$ 44,409 |
| Depreciation of investment properties | - | - | 2,447 | 2,447 |
| | <u>\$154,070</u> | <u>\$ 68,477</u> | <u>\$ 7,710</u> | <u>\$230,257</u> |
| Amortization expense | <u>\$ 220</u> | <u>\$ 3,683</u> | <u>\$ -</u> | <u>\$ 3,903</u> |
| | | | | (Concluded) |

| | 2018 | | | |
|---|----------------|-------------------|--------------------------------|------------|
| | Operating Cost | Operating Expense | Non-operating Expense and Loss | Total |
| Short-term employee benefits | \$ 390,492 | \$ 366,694 | \$ - | \$ 757,186 |
| Retirement benefits | \$ 6,673 | \$ 7,640 | \$ - | \$ 14,313 |
| Other employee benefits | \$ 9,009 | \$ 13,708 | \$ - | \$ 22,717 |
| Depreciation expense | | | | |
| Depreciation of property, plant and equipment | \$ 143,646 | \$ 41,972 | \$ 10,343 | \$ 195,961 |
| Depreciation of investment property | - | - | 2,508 | 2,508 |
| | \$ 143,646 | \$ 41,972 | \$ 12,851 | \$ 198,469 |
| Amortization expense | \$ 220 | \$ 4,460 | \$ - | \$ 4,680 |

According to the Company's Articles, the Company accrued employees' compensation at rates of no less than 4% and no higher than 8%, and remuneration of directors at rates no higher than 2% of net profit before income tax, employees' compensation and remuneration of directors. Due to loss, the employees' compensation and the remuneration of directors in 2019 were not accrued. The employees' compensation and the remuneration of directors for the year ended December 31, 2018, which have been approved by the Company's board of directors on March 26, 2019 were as follows:

Accrual rate

| | 2018 |
|---|------|
| Employees' compensation | 8% |
| Remuneration of directors and supervisors | 2% |

Amount

| | 2018 | |
|---|----------|--------|
| | Cash | Shares |
| Employees' compensation | \$ 6,560 | \$ - |
| Remuneration of directors and supervisors | 1,640 | - |

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

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

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense (benefit) are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Current tax | | |
| In respect of the current year | \$ 53,519 | \$ 50,583 |
| Income tax on unappropriated earnings | - | 4,766 |
| Adjustments for prior years | (12,184) | (1,047) |
| Deferred tax | | |
| In respect of the current year | 1,982 | 12,142 |
| Adjustments to deferred tax attributable to changes in tax rates | - | (3,900) |
| Income tax expense recognized in profit or loss | <u>\$ 43,317</u> | <u>\$ 62,544</u> |

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

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| (Loss) profit before tax from continuing operations | <u>\$ (115,392)</u> | <u>\$ 86,999</u> |
| Income tax expense (benefit) calculated at the statutory rate | \$ (9,716) | \$ 51,385 |
| Investment gain under the equity method | 33,650 | (5,408) |
| Dividends income from foreign investments | 15,800 | 45,400 |
| Gain on disposal of domestic equity investments | (9,100) | (3,400) |
| Others | (2,485) | 3,296 |
| Deferred income tax assets not recognized in previous year but applied in current year | (2,335) | (53,000) |
| Unrecognized loss carryforwards | 29,687 | 20,552 |
| Increase in undistributed surplus | - | 4,766 |
| Adjustments for prior years' income tax | (12,184) | (1,047) |
| Income tax expense recognized in profit or loss | <u>\$ 43,317</u> | <u>\$ 62,544</u> |

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate of the subsidiaries in mainland China is 25%. For other jurisdictions, taxes are calculated using the applicable tax rate for each individual jurisdiction.

b. Current tax assets and liabilities

| | For the Year Ended December 31 | |
|--|---------------------------------------|------------------|
| | 2019 | 2018 |
| Current tax assets | | |
| Tax refund receivable | \$ <u>11,512</u> | \$ <u>7,267</u> |
| Current tax liabilities | | |
| Income tax payable | \$ <u>22,463</u> | \$ <u>20,911</u> |
| c. Deferred tax assets and liabilities | | |

| | For the Year Ended December 31 | |
|----------------------------|---------------------------------------|------------------|
| | 2019 | 2018 |
| <u>Deferred tax assets</u> | | |
| Temporary differences | \$ 13,587 | \$ 16,569 |
| Loss carryforwards | <u>14,300</u> | <u>13,300</u> |
| Deferred tax assets | \$ <u>27,887</u> | \$ <u>29,869</u> |

d. As of December 31, 2019, information on unused loss carryforwards was as follows:

| <u>Unused Carryforwards</u> | <u>Year of Last Carryforwards</u> |
|-----------------------------|-----------------------------------|
| \$ 79,831 | 2022 |
| 4,634 | 2023 |
| 8,732 | 2024 |
| 48,416 | 2025 |
| 9,026 | 2026 |
| <u>97,913</u> | 2028 |
| \$ <u>248,552</u> | |

e. Income tax assessments

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

25. EARNINGS PER SHARE

| | 2019 | | | 2018 | | |
|--|-------------------------------------|--|--|---|--|--|
| | <u>Amount</u> <u>(Numerator)</u> | <u>Number of</u> <u>Shares in</u> <u>Thousands</u> <u>(Denominator)</u> | <u>Loss per</u> <u>Share</u> <u>(NT\$)</u> <u>After Tax</u> | <u>Amount</u> <u>(Numerator)</u> <u>After Tax</u> | <u>Number of</u> <u>Shares in</u> <u>Thousands</u> <u>(Denominator)</u> | <u>Earnings</u> <u>per Share</u> <u>(NT\$)</u> <u>After Tax</u> |
| Basic earnings (loss) per share | | | | | | |
| Earnings (loss) available to shareholders of common shares | \$ (119,835) | 152,102 | (\$ 0.79) | \$ 65,829 | 161,450 | \$ 0.41 |
| Effect of dilutive potential common shares | | | | | | |
| Convertible bonds | | | | - | - | |
| Bonus to employees | | | | - | 755 | |
| Diluted earnings per share | | | | | | |
| Earnings available to shareholders of common shares | | | | \$ 65,829 | 162,205 | \$ 0.41 |

If the Group offered to settle the compensation or bonuses paid to employees in cash or shares, the Group assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the

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

26. SHARE-BASED PAYMENT ARRANGEMENTS

- a. In August 2019 and December 2019, the Company resolved to transfer 2,000 thousand shares and 2,905 thousand shares of treasury stock to employees at \$16 and \$17 per share, respectively. Target employees included employees of the Company and its subsidiaries who met certain conditions. However, the delivery date of 2,905 thousand shares was in January 2020.

Treasury shares granted in August 2019 and December 2019 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | August 2019 | December 2019 |
|--------------------------|-------------|---------------|
| Grant-date share price | \$23.10 | \$19.05 |
| Exercise price | \$16.00 | \$17.00 |
| Expected volatility | 37.47% | 43.21% |
| Expected life (in years) | 0 | 0 |
| Risk-free interest rate | 0.43% | 0.49% |

Compensation cost recognized was \$20,359 thousand for the year ended December 31, 2019.

- b. The board of directors of Optivision Technology Inc., a subsidiary of the Company, resolved to issue employee share options on November 3, 2017 in accordance with Article 167 of the Company Act. The total number of issued share options is 1,000 thousand units and each unit is eligible to subscribe for 1 ordinary share at a price of \$22 per share. The delivery of employee share option is similar to new issuance of shares. Employees could exercise their right to subscribe for shares within 2 years after the grant date for a maximum of 50% out of total number of share options granted, for a maximum of 75% out of total number of share options after 3 years from the grant date and the whole share options after 4 years from the grant date. The duration of subscription rights is 6 years, and upon its expiration, any unexercised options shall be deemed waived. The options were fully issued by Optivision Technology Inc. on May 10, 2018. If there are any ex-rights and ex-dividends or increase/decrease in cash, the subscription price will be adjusted according to the Company. As of December 31, 2019, the outstanding employee share options were eligible to subscribe for 828 thousand units, at a price of \$20.7 per share.
- c. Information on employee share options is as follows:

| | 2019 | | 2018 | |
|---|--|---|--|---|
| | Number of Options (In Thousands of Units) | Weighted- average Exercise Price (\$) | Number of Options (In Thousands of Units) | Weighted- average Exercise Price (\$) |
| Employee Share Options | | | | |
| Balance at January 1 | 933 | \$ 20.7 | - | \$ - |
| Options granted | - | - | 1,000 | 22.0 |
| Options expired | (105) | 20.7 | (67) | 20.7 |
| Balance at December 31 | <u>828</u> | 20.7 | <u>933</u> | 20.7 |
| Options exercisable, end of the year | <u>-</u> | - | <u>-</u> | - |

Information on outstanding options is as follows:

| | December 31 | |
|--|--------------------|-------------|
| | 2019 | 2018 |
| Range of exercise price (\$) | \$20.7 | \$20.7 |
| Weighted-average remaining contractual life (in years) | 4.42 | 5.43 |
| d. Options granted to employees by Optivision Technology Inc. in May 10, 2018 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows: | | |
| Grant-date share price | \$22 | |
| Exercise price | \$22 | |
| Expected volatility | 49.56% | |
| Expected life (in years) | 4-5 | |
| Expected dividend yield | 0% | |
| Risk-free interest rate | 0.68-0.73% | |

Compensation costs recognized were \$2,643 thousand and \$2,088 thousand for the years ended December 31, 2019 and 2018, respectively.

27. BUSINESS COMBINATIONS

- a. The Group participated in cash capital increase of its associate accounted for using the equity method, Insight Medical Solutions Inc., on December 23, 2019. After the capital increase, the Group held 44% equity interest in Insight Medical Solutions Inc. and gained control of its associate.

Consideration transferred

| | Amount |
|--------------------------------------|-------------------|
| Cash | \$ 114,441 |
| Fair value of shares originally held | <u>150,172</u> |
| | <u>\$ 264,613</u> |

- b. Assets acquired and liabilities assumed at the date of acquisition

| | Insight Medical Solutions Inc. |
|-----------------------------|---|
| Current assets | |
| Cash | \$ 256,801 |
| Financial assets at FVTPL | 51,288 |
| Notes and trade receivables | 165 |
| Other receivables | 55 |
| Inventories | 12,352 |
| Other current assets | 7,871 |
| Non-current assets | |
| Fixed assets | 42,173 |
| Financial assets at FVTOCI | 1,249 |
| Intangible assets | 44,373 |
| Other non-current assets | 8,152 |
| Current liabilities | |
| Short-term borrowings | (10,000) |
| Notes and trade payables | (736) |
| | (Continued) |

**Insight Medical
Solutions Inc.**

| | |
|---------------------------|----------------------------------|
| Other payables | \$ (8,869) |
| Other current liabilities | <u>(154)</u> |
| Ending balance | <u>\$ 404,720</u> (Concluded) |

The accounting treatment for the acquisition of Insight Medical Solutions Inc. at the balance sheet date is only provisionally determined based on management's best estimated amounts. At the date of issuance of the consolidated financial statements, the necessary market valuations and other calculations have not been finalized, and may change when the valuation report is formally issued.

c. Non-controlling interests

The non-controlling interest of Insight Medical Solutions Inc. recognized at the acquisition date was measured by reference to the provisional value of the non-controlling interest and amounted to \$225,859 thousand. This provisional value is based on the proportionate share of identifiable net assets on the acquisition date. At the date of issuance of the consolidated financial statements, the necessary market valuations and other calculations have not been finalized.

d. Goodwill recognized on acquisitions

**Insight Medical
Solutions Inc.**

| | |
|--|------------------|
| Consideration transferred | \$ 264,613 |
| Plus: Non-controlling interests | 225,859 |
| Less: Fair value of identifiable net assets acquired | <u>(404,720)</u> |
| Goodwill recognized on acquisitions | <u>\$ 85,752</u> |

The total amount of acquired goodwill from business combinations is not expected to be tax-deductible.

e. Net cash inflow on the acquisition of subsidiaries

**Insight Medical
Solutions Inc.**

| | |
|----------------------------------|-------------------|
| Cash balance of subsidiary | \$ 256,801 |
| Less: Consideration paid in cash | <u>(114,441)</u> |
| | <u>\$ 142,360</u> |

28. CAPITAL RISK MANAGEMENT

The capital risk management of Group is to ensure that it has the necessary financial resources and operational plans to meet the needs of working capital, capital expenditures, research and development expenses, debt repayments and dividend payouts in the next 12 months.

29. FINANCIAL INSTRUMENTS

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

The Group's management believes that the carrying amount of financial assets and financial liabilities recognized in the consolidated financial statements which are not measured at fair value approximates their fair value.

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

1) Fair value hierarchy

December 31, 2019

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|------------------|-------------|------------------|------------------|
| Financial assets at FVTPL | <u>\$201,777</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$201,777</u> |
| Financial assets at FVTOCI | | | | |
| Equity instruments | | | | |
| Foreign unlisted shares | \$ - | \$ - | \$ 64,536 | \$ 64,536 |
| Domestic unlisted shares | <u>-</u> | <u>-</u> | <u>37,930</u> | <u>37,930</u> |
| Financial assets at FVTOCI | <u>\$ -</u> | <u>\$ -</u> | <u>\$102,466</u> | <u>\$102,466</u> |

December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|------------------|-------------|------------------|------------------|
| Financial assets at FVTPL | <u>\$ 85,324</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 85,324</u> |
| Financial assets at FVTOCI | | | | |
| Equity instruments | | | | |
| Foreign unlisted shares | \$ - | \$ - | \$ 59,351 | \$ 59,351 |
| Domestic unlisted shares | <u>-</u> | <u>-</u> | <u>67,028</u> | <u>67,028</u> |
| Financial assets at FVTOCI | <u>\$ -</u> | <u>\$ -</u> | <u>\$126,379</u> | <u>\$126,379</u> |

2) There were no transfers between Levels 1 and 2 in 2019 and 2018.

3) No adjustment shall be made to financial assets that applied Level 3 fair value changes other than those recognized in other comprehensive income.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

| Financial Instruments | Valuation Techniques and Inputs |
|--|---|
| Domestic and foreign unlisted equity investments | Market approach. Fair market value are estimated based on observable companies at the end of the reporting period, and adjusted by the P/E ratio and market price/net worth ratio of invested company. |

c. Categories of financial instruments

| | December 31 | |
|---|--------------|--------------|
| | 2019 | 2018 |
| <u>Financial assets</u> | | |
| Measured at amortized cost | | |
| Cash and cash equivalents | \$ 1,588,179 | \$ 1,237,725 |
| Notes and trade receivables (including related parties) | 1,489,549 | 1,743,635 |
| Other receivables | 36,358 | 65,973 |
| Refundable deposits | 40,918 | 30,679 |
| Restricted assets (current and non-current) | 75,354 | 111,669 |
| Financial assets at FVTPL - current | 201,777 | 85,324 |

(Continued)

| | December 31 | |
|--|--------------------|-------------|
| | 2019 | 2018 |
| Financial assets at FVTOCI - non-current | \$ 102,466 | \$ 126,379 |
| <u>Financial liabilities</u> | | |
| Measured at amortized cost | | |
| Short-term borrowings | 801,147 | 911,153 |
| Short-term notes payable | 169,943 | 99,960 |
| Notes and trade payables (including related parties) | 649,881 | 755,331 |
| Other payables | 379,677 | 338,252 |
| Long-term borrowings (including current portion) | 1,190,000 | 1,040,000 |
| | | (Concluded) |

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, other receivables, refundable deposits, trade payables, short-term notes payable, other payables and borrowings. The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

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

a) Foreign currency risk

As many of the Company's subsidiaries have foreign currency denominated transactions, the Group is exposed to risk of fluctuation in exchange rates. The Group's risk management policy on foreign exchange rate fluctuations is within the allowed standard scope, and utilizes derivative - foreign currency forward contracts to manage risks.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 33.

The sensitivity analysis of the Group included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number indicates an increase in pre-tax profit and other equity associated with the functional currency strengthening 1% against the relevant foreign currency. For a 1% weakening of the functional currency against the relevant foreign currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances would be negative.

| | USD Impact | | JPY Impact | | RMB Impact | |
|----------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Profit or loss | \$ 9,121 | \$ 6,826 | \$ (1,324) | \$ (950) | \$ 5,170 | \$ 4,037 |

b) Interest rate risk

The interest rate risk of the Group mainly comes from both floating-rate fixed deposits and loans.

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

| | December 31 | |
|------------------------------|--------------------|-------------|
| | 2019 | 2018 |
| Cash flow interest rate risk | | |
| Financial assets | \$ 67,317 | \$ 103,001 |
| Financial liabilities | 1,401,905 | 1,054,929 |

The sensitivity analysis was determined based on the calculation of changes in the fair value of financial assets and liabilities at the end of the reporting period. If interest rates had been 1% higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2019 and 2018 would increase by \$13,346 thousand and \$9,519 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group mostly requires its major trading partners to provide collateral or other rights as a guarantee to effectively reduce the credit risk. Management of the Group has assigned a dedicated team responsible for the decision the credit limit, credit approval and other monitoring procedures to ensure that appropriate actions have been taken for the recovery of overdue receivables. In addition, the Group will review each of the recoverable amount of the receivables on the balance sheet date to ensure that uncollectible receivables have been recognized as impairment loss. Therefore, management of the Group believes that the credit risk has been significantly reduced.

3) Liquidity risk

The Group has sufficient working capital to meet its present obligations. Therefore, there is no liquidity risk arising from inability to raise funds in meeting contractual obligations.

a) The following table details the Group's expected maturities for some of its non-derivative financial liabilities

| | December 31, 2019 | | | |
|---|-----------------------------|---------------------|------------------------------|---------------------|
| | Less than 1 Year | 2-3 Years | More than 3 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing liabilities | \$ 1,029,558 | \$ - | \$ - | \$ 1,029,558 |
| Lease liabilities | 43,584 | 32,429 | 181,189 | 257,202 |
| Floating interest rate liabilities | 231,905 | 1,170,000 | - | 1,401,905 |
| Fixed interest rate liabilities | 749,185 | 10,000 | - | 759,185 |
| | <u>\$ 2,054,232</u> | <u>\$ 1,212,429</u> | <u>\$ 181,189</u> | <u>\$ 3,447,850</u> |

(Continued)

| December 31, 2019 | | | | |
|-------------------|----------------------|-----------|------------|-----------------------|
| | Less than 3 Years | 3-5 Years | 5-10 Years | More than 10 Years |
| Lease liabilities | \$ 76,013 | \$ 72,239 | \$ 59,137 | \$ 49,813 |

| December 31, 2018 | | | | |
|------------------------------------|---------------------|-------------------|----------------------|---------------------|
| | Less than 1 Year | 2-3 Years | More than 3 Years | Total |
| Non-interest bearing liabilities | \$ 1,088,600 | \$ - | \$ - | \$ 1,088,600 |
| Floating interest rate liabilities | 238,929 | 816,000 | - | 1,054,929 |
| Fixed interest rate liabilities | 836,184 | 160,000 | - | 996,184 |
| | <u>\$ 2,163,713</u> | <u>\$ 976,000</u> | <u>\$ -</u> | <u>\$ 3,139,713</u> |
| | | | | (Concluded) |

b) Financing facilities

| | | December 31 | |
|-------------------------------------|--|---------------------|---------------------|
| | | 2019 | 2018 |
| Unsecured bank overdraft facilities | | | |
| Amount used | | \$ 1,441,147 | \$ 1,331,153 |
| Amount unused | | <u>1,277,813</u> | <u>1,439,677</u> |
| | | <u>\$ 2,718,960</u> | <u>\$ 2,770,830</u> |
| Secured bank overdraft facilities | | | |
| Amount used | | \$ 720,000 | \$ 720,000 |
| Amount unused | | <u>80,000</u> | <u>280,000</u> |
| | | <u>\$ 800,000</u> | <u>\$ 1,000,000</u> |

30. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expenses between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Related party names and categories

| Related Party Name | Related Party Category |
|---|---|
| Dongguan Guangzhi Photoelectric Co., Ltd. | Other related parties, since the Group's subsidiary, Optivision Technology Inc., serves as the director of its parent company |
| Hunan Hequan Packing Material Co., Ltd. | Other related parties |
| Insight Medical Solutions Inc. | Associate under the equity method, becomes a subsidiary since December 23, 2019 |
| Guangfeng Optoelectronics (Wuxi) Co., Ltd. | Associate under the equity method |
| Jiangsu Xinguan Laser Packing Materials Co., Ltd. | Associate under the equity method |
| Hunan Hexin Packing Materials Co., Ltd. | Associate under the equity method |
| Boxlight Corporation | Associate under the equity method |

b. Operating income and expenses

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| <u>Sales</u> | | |
| Other related parties | | |
| Dongguan Guangzhi Photoelectric Co., Ltd. | \$ 785,215 | \$ 697,722 |
| Associates | <u>31,067</u> | <u>158,361</u> |
| | <u>\$ 816,282</u> | <u>\$ 856,083</u> |
| | <u>2019</u> | <u>2018</u> |
| <u>Purchases</u> | | |
| Associates | <u>\$ 134,379</u> | <u>\$ 211,213</u> |
| <u>Manufacturing expenses</u> | | |
| Associates | <u>\$ 10,423</u> | <u>\$ 11,667</u> |
| <u>Operating expenses</u> | | |
| Other related parties | \$ - | \$ 230 |
| Associates | <u>3,376</u> | <u>4,624</u> |
| | <u>\$ 3,376</u> | <u>\$ 4,854</u> |
| <u>Interest income</u> | | |
| Other related parties | \$ 109 | \$ 334 |
| Associates | | |
| Hunan Hexin Packing Materials Co., Ltd. | <u>1,190</u> | <u>1,186</u> |
| | <u>\$ 1,299</u> | <u>\$ 1,520</u> |
| <u>Other income</u> | | |
| Associates | | |
| Insight Medical Solutions Inc. | \$ 4,424 | \$ 4,252 |
| Others | <u>1,301</u> | <u>448</u> |
| | <u>\$ 5,725</u> | <u>\$ 4,700</u> |

The price and payment terms to related parties were not significantly different from those to general customers.

c. The outstanding balance at the balance sheet date is as follows:

| | <u>December 31</u> | |
|--|--------------------|-------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>Receivables from related parties</u> | | |
| Other related parties | | |
| Dongguan Guangzhi Photoelectric Co., Ltd. | \$ 468,848 | \$ 418,137 |
| Associates | <u>156,482</u> | <u>106,397</u> |
| | <u>\$ 625,330</u> | <u>\$ 524,534</u> |
| <u>Payables to related parties</u> | | |
| Other related parties | | |
| Jiangsu Xinguang Laser Packing Materials Co., Ltd. | \$ 48,168 | \$ 42,931 |
| Others | <u>300</u> | <u>1,812</u> |
| | <u>\$ 48,468</u> | <u>\$ 44,743</u> |

(Continued)

| | December 31 | |
|---|--------------------|-----------------|
| | 2019 | 2018 |
| Other receivables | | |
| Other related parties | \$ - | \$ 61 |
| Associates | | |
| Hunan Hexin Packing Materials Co., Ltd. | \$ - | \$ 3,622 |
| Others | 110 | 830 |
| | <u>\$ 110</u> | <u>\$ 4,513</u> |
| | | (Concluded) |

The price and payment terms to related parties were not significantly different from those to general customers.

d. Accommodation of funds

Loans provided to related parties by the Group in 2019 and 2018 are as follows:

| | 2019 | | 2018 | |
|---|------------------------|-----------------------|------------------------|-----------------------|
| Related Party Category/Name | Maximum Balance | Ending Balance | Maximum Balance | Ending Balance |
| Associate - Hunan Hexin Packing Materials Co., Ltd. | <u>\$ 46,030</u> | <u>\$ 34,440</u> | <u>\$ 46,860</u> | <u>\$ 44,720</u> |

e. Endorsements and guarantees

Related party of the Group is acting as a joint guarantor for its loans, the information on joint guarantee is summarized as follows:

| | | December 31 | |
|------------------------------------|-------------------------------------|---------------------|---------------------|
| Related Party Category/Name | Nature of Joint Guarantee | 2019 | 2018 |
| Key management personnel | Short-term loans | \$ 801,147 | \$ 911,153 |
| | Commercial promissory notes payable | 169,943 | 99,960 |
| | Long-term loans | <u>1,190,000</u> | <u>1,040,000</u> |
| | | <u>\$ 2,161,090</u> | <u>\$ 2,051,113</u> |

f. Compensation of key management personnel

The compensation of key management personnel in 2019 and 2018 are as follows:

| | 2019 | 2018 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | <u>\$ 13,389</u> | <u>\$ 15,227</u> |

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

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of the Group were provided as collateral for loans under loan contracts and business requirements:

| | December 31 | |
|-------------------------------|--------------------|-------------------|
| | 2019 | 2018 |
| Bank deposits | \$ 75,354 | \$ 111,669 |
| Property, plant and equipment | 206,075 | 207,755 |
| Investment properties | - | 4,583 |
| | <u>\$ 281,429</u> | <u>\$ 324,007</u> |

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The details of endorsements/guarantees provided by the Group were as follows:

| | (In Thousands of New Taiwan Dollars) | |
|---------------------------|---|-------------|
| | December 31 | |
| | 2019 | 2018 |
| Everest Display Inc. | | |
| Guarantee amount | \$ 480,000 | \$ 480,000 |
| Actual amount transferred | \$ 405,036 | \$ 416,079 |

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies were as follows:

| | (In thousands of New Taiwan Dollars or Foreign Currencies) | | | | | |
|---|---|--------------------------|--------------|-----------------------------|--------------------------|--------------|
| | December 31, 2019 | | | December 31, 2018 | | |
| | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 44,974 | 29.98 | \$ 1,348,321 | \$ 43,777 | 30.715 | \$ 1,344,611 |
| JPY | 643 | 0.276 | 177 | 826 | 0.2782 | 230 |
| RMB | 128,954 | 4.305 | 555,147 | 93,369 | 4.472 | 430,962 |
| Long-term equity investments accounted for using the equity method | | | | | | |
| USD | 7,596 | 29.98 | 227,736 | 11,065 | 30.715 | 339,861 |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items | | | | | | |
| USD | 14,552 | 29.98 | 436,269 | 21,552 | 30.715 | 661,970 |
| JPY | 480,406 | 0.276 | 132,592 | 342,164 | 0.2782 | 95,190 |
| RMB | 8,863 | 4.305 | 38,155 | 6,089 | 4.472 | 27,230 |

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and reinvestments is as follows:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures)

(Table 3)

- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
 - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
 - 9) Trading in derivative instruments (None)
 - 10) Other intercompany relationships and significant intercompany transactions (Table 8)
 - 11) Information on investees (Table 6)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 7):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to the financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

35. SEGMENT INFORMATION

The Group manufactures and sells holographic products, precision optical components and optical

instruments. Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on each region of the goods delivered or provided. The reportable segments are as follows:

| | |
|-----------------|---|
| Mainland China | Wuxi K Laser Technology Co., Ltd Dongguan K Laser Technology Co., Ltd. K Laser Technology (HK) Co., Ltd. Hunan Herui Laser Technology Co., Ltd. Ningbo Optivision Technology Co., Ltd. |
| Asian countries | K Laser Technology Inc. K Laser Technology (Thailand) Co., Ltd. K Laser Technology (Korea) Co., Ltd. K Laser Technology Japan Co., Ltd. Amagic Holographics India Private Limited Optivision Technology Inc. Everest Display Inc. Insight Medical Solutions Inc. |
| Other countries | Amagic Technologies U.S.A. (Dubai) K Laser Technology (USA) Co., Ltd. Finity Laboratories |

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments.

| | 2019 | | | | |
|--|-----------------------|------------------------|-------------------|---------------------------------|---------------------|
| | <u>Mainland China</u> | <u>Asian Countries</u> | <u>Others</u> | <u>Adjustment and Write-off</u> | <u>Total</u> |
| Operating revenue | \$ 3,026,574 | \$ 2,817,835 | \$ 954,144 | \$ (1,599,531) | \$ 5,199,022 |
| Operating cost | <u>2,347,284</u> | <u>2,469,910</u> | <u>799,973</u> | <u>(1,602,305)</u> | <u>4,014,862</u> |
| Gross profit | 679,290 | 347,925 | 154,171 | 2,774 | 1,184,160 |
| Operating expenses | <u>408,616</u> | <u>625,065</u> | <u>140,992</u> | <u>(21,531)</u> | <u>1,153,142</u> |
| Operating profit | 270,674 | (277,140) | 13,179 | 24,305 | 31,018 |
| Interest income | 7,838 | 4,791 | 1,242 | - | 13,871 |
| Interest expenses | 418 | 38,354 | 2,046 | (184) | 40,634 |
| Other income and (expenses and losses) | <u>(60,551)</u> | <u>(109,638)</u> | <u>321,271</u> | <u>(270,729)</u> | <u>(119,647)</u> |
| Net loss before income tax | <u>\$ 217,543</u> | <u>\$ (420,341)</u> | <u>\$ 333,646</u> | <u>\$ (246,240)</u> | <u>\$ (115,392)</u> |
| | 2018 | | | | |
| | <u>Mainland China</u> | <u>Asian Countries</u> | <u>Others</u> | <u>Adjustment and Write-off</u> | <u>Total</u> |
| Operating revenue | \$ 3,076,142 | \$ 2,881,900 | \$ 786,973 | \$ (1,542,765) | \$ 5,202,250 |
| Operating cost | <u>2,453,135</u> | <u>2,542,737</u> | <u>650,074</u> | <u>(1,537,589)</u> | <u>4,108,357</u> |
| Gross profit | 623,007 | 339,163 | 136,899 | (5,176) | 1,093,893 |
| Operating expenses | <u>393,444</u> | <u>432,211</u> | <u>123,245</u> | <u>(27,856)</u> | <u>921,044</u> |
| Operating profit | 229,563 | (93,048) | 13,654 | 22,680 | 172,849 |
| Interest income | 8,336 | 4,702 | 2,214 | (800) | 14,452 |
| Interest expenses | 154 | 34,073 | - | (799) | 33,428 |

(Continued)

| | 2018 | | | | |
|--|----------------|-----------------|------------|--------------------------|--------------------------|
| | Mainland China | Asian Countries | Others | Adjustment and Write-off | Total |
| Other income and (expenses and losses) | \$ (42,596) | \$ 118,981 | \$ 277,181 | \$ (420,440) | \$ (66,874) |
| Net loss before income tax | \$ 195,149 | \$ (3,438) | \$ 293,049 | \$ (397,761) | \$ 86,999 (Concluded) |

The inter-segment transactions for 2019 and 2018 have been written off.

b. Segment assets

| | 2019 | | | | |
|-----------------------------|----------------|-----------------|--------------|--------------------------|--------------|
| | Mainland China | Asian Countries | Others | Adjustment and Write-off | Total |
| Cash and cash equivalents | \$ 569,092 | \$ 865,114 | \$ 153,973 | \$ - | \$ 1,588,179 |
| Notes and trade receivables | 818,362 | 911,133 | 99,513 | (339,459) | 1,489,549 |
| Inventories | 437,720 | 294,016 | 218,693 | (35,603) | 914,826 |
| Other current assets | 346,024 | 156,296 | 13,807 | (103,757) | 412,370 |
| Total current assets | 2,171,198 | 2,226,559 | 485,986 | (478,819) | 4,404,924 |
| Funds and investments | 453,849 | 3,601,662 | 4,965,505 | (8,318,540) | 702,476 |
| Fixed assets | 447,116 | 663,183 | 30,133 | 49,245 | 1,189,677 |
| Intangible assets | - | 4,092 | - | 130,125 | 134,217 |
| Other assets | 45,678 | 318,941 | 57,655 | (67,104) | 355,170 |
| Total assets | \$ 3,117,841 | \$ 6,814,437 | \$ 5,539,279 | \$ (8,685,093) | \$ 6,786,464 |

| | 2018 | | | | |
|-----------------------------|----------------|-------------------------|--------------|--------------------------|--------------|
| | Mainland China | Other Asian Territories | Others | Adjustment and Write-off | Total |
| Cash and cash equivalents | \$ 542,389 | \$ 431,311 | \$ 264,025 | \$ - | \$ 1,237,725 |
| Notes and trade receivables | 936,611 | 1,102,444 | 129,459 | (424,879) | 1,743,635 |
| Inventories | 469,146 | 333,691 | 208,010 | (31,310) | 979,537 |
| Other current assets | 309,544 | 77,468 | 13,248 | (34,908) | 365,352 |
| Total current assets | 2,257,690 | 1,944,914 | 614,742 | (491,097) | 4,326,249 |
| Funds and investments | 464,940 | 3,910,857 | 5,125,012 | (8,631,876) | 868,933 |
| Fixed assets | 477,149 | 702,312 | 21,823 | 45,459 | 1,246,743 |
| Intangible assets | - | 6,917 | - | - | 6,917 |
| Other assets | 84,976 | 110,932 | 24,827 | (59,420) | 161,315 |
| Total assets | \$ 3,284,755 | \$ 6,675,932 | \$ 5,786,404 | \$ (9,136,934) | \$ 6,610,157 |

d. Information about major customers

Single customer that contributed 10% or more to the revenue in the consolidated statements of comprehensive income is as follows:

| | 2019 | | 2018 | |
|---|------------|----|------------|----|
| Customer | Amount | % | Amount | % |
| Dongguan Guangzhi Photoelectric Co., Ltd. | \$ 785,215 | 15 | \$ 697,722 | 13 |

TABLE 1**K LASER TECHNOLOGY INC. AND SUBSIDIARIES**

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currencies)

| No. (Note 1) | Lender | Borrower | Financial Statement Account | Related Party | Highest Balance for the Period | Ending Balance | Actual Amount Borrowed | Interest Rate (%) | Nature of Financing (Note 2) | Business Transaction Amount | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral | | Financing Limit for Each Borrower (Note 3) | Aggregate Financing Limit (Note 3) | Note |
|-----------------|--|--|--------------------------------|------------------|--------------------------------------|----------------------|------------------------------|----------------------|------------------------------------|-----------------------------------|---|-------------------------------------|------------|-------|---|---|------|
| | | | | | | | | | | | | | Item | Value | | | |
| 0 | K Laser Technology Inc. | Everest Display Inc. | Other receivables | Yes | \$ 60,000 | \$ 60,000 | \$ - | 3 | 2 | \$ - | The need for financing operating capital | \$ - | - | - | \$ 240,109 | \$ 600,273 | |
| 1 | Dongguan K Laser Technology Co., Ltd. | Hunan Hexin Packing Materials Co., Ltd. | Other receivables | Yes | 46,030 (RMB10,000) | 40,898 (RMB9,500) | 34,440 (RMB8,000) | 4.31 | 2 | - | The need for financing operating capital | \$ - | - | - | \$ 431,189 (RMB100,160) | \$ 431,189 (RMB100,160) | |

Note 1: The Company is coded “0”.

The subsidiaries are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: The relationships between the Company and its subsidiaries can be classified into the following:

- a. A company with business relationship is coded “1”
- b. A company which has short-term financing needs is coded “2”

Note 3: The types of capital loans to others between the Company and its subsidiaries are as follows:

- a. The financing and aggregate financing limit to others shall not exceed 25% the current net worth of the Company, and the individual loan financing and its amount shall not exceed 10% of the current net worth of the Company.
- b. According to the Company’s subsidiary loans to others and endorsement guarantee procedures, the total loans of the Group (subsidiary) shall not exceed 40% of the net worth of the Group (subsidiary) and the total amount of funds needed for loans to others in short-term financing between companies shall not exceed 40% of the net worth of the Group (subsidiary).

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. (Note 1) | Endorser/Guarantor | Endorsee/Guarantee | | Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 3) | Maximum Amount Endorsed/ Guaranteed During the Period | Outstanding Endorsement/ Guarantee at the End of the Period | Actual Amount Borrowed | Amount Endorsed/ Guaranteed by Collateral | Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements | Aggregate Endorsement/ Guarantee Limit (Note 3) | Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries | Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent | Endorsement/ Guarantee Given on Behalf of Companies in Mainland China |
|-----------------|-------------------------|----------------------|--------------------------|--|--|---|------------------------------|--|---|---|---|---|---|
| | | Name | Relationship (Note 2) | | | | | | | | | | |
| 0 | K Laser Technology Inc. | Everest Display Inc. | 3 | \$ 480,218 | \$ 480,000 | \$ 480,000 | \$ 405,036 | \$ - | 19.99% | \$ 960,436 | Yes | No | No |

Note 1: 1. The Company is coded "0".

2. The investees are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The seven types of relationships between the endorser/guarantor and endorsee/guarantee are as follows:

- a. Companies with business relationship.
- b. Subsidiary in which over 50% of its ordinary shares is directly or indirectly owned by the Company.
- c. The total amount of the guarantee provided by the Company to subsidiaries whose direct or indirect voting shares are 50% above.
- d. Subsidiaries in which over 90% of their ordinary shares are directly or indirectly owned by the Company.
- e. Mutually endorsed/guaranteed companies for the construction project based on the construction contract.
- f. Companies of the same investment relationship as the stockholders of the companies provide endorsements/guarantees to, in proportion of their stockholding amounts, due to co-investment.
- g. Companies in the same industry that are liable for joint endorsements/guarantees of the preconstruction house contract by consumer protection law.

Note 3: The types of endorsement guarantee limits of the Company and its subsidiaries are as follows:

- a. According to the Company's implementation measures for endorsement guarantees, the maximum limit for endorsement guarantees is limited to 40% of the Company's net worth in the latest financial statements, and the limit for a single company's endorsement guarantees shall not exceed 20% of the Company's net worth in the latest financial statements.
- b. According to the Company's subsidiary loans to others and endorsement guarantee procedures, the total amount of the Group (subsidiary) endorsement guarantees is limited to 40% of the Group (subsidiary)'s net worth in the latest financial statements, and the limit for a single enterprise shall not exceed 20% of the net worth in the latest financial statements of the Group (subsidiary).
- c. For those who have business transactions or associations with the Group, the individual loan amount shall not exceed the transaction amount between the two parties. The so-called business refers to the higher of purchase or sales between the two parties.

Note 4: For actual amounts of loans, refer to Note 30.

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2019 | | | | Note |
|---------------------------------------|---|---------------------------------------|--|-------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| | <u>Shares</u> | | | | | | | |
| K Laser Technology Inc. | Minton Optic Industry Co., Ltd. | - | Financial assets at FVTPL - non-current | 857,900 | \$ - | 1 | \$ - | |
| | CM Visual Technology Co., Ltd. | - | Financial assets at FVTOCI - non-current | 4,800,000 | 8,520 | 16 | 8,520 | |
| | China Development Biomedical Venture Co., Ltd. | - | Financial assets at FVTOCI - non-current | 3,000,000 | 28,161 | 2 | 28,161 | |
| Insight Medical Solutions Inc. | Aether Precision Technology Inc. | - | Financial assets at FVTOCI - non-current | 240,000 | 1,249 | 10 | 1,249 | |
| Bright Triumph Limited | K Laser China Group (Cayman) Holdings Co., Ltd. | - | Financial assets at FVTOCI - non-current | 625,000 | 54,370 | 18 | 54,370 | |
| Dongguan K Laser Technology Co., Ltd. | Shenzhen Zhenhuajia Environmental Protection Energy Co., Ltd. | - | Financial assets at FVTOCI - non-current | 1,900,000 | 10,166 | 19 | 10,166 | |
| | <u>Funds</u> | - | | | | | | |
| K Laser Technology Inc. | Jih Sun Asian High Yield Bond | | Financial assets at FVTPL - current | 417,526 | 5,296 | - | 5,296 | |
| Wuxi K Laser Technology Co., Ltd. | Bank of Jiangsu's Corporate RMB Structured Deposits | - | Financial assets at FVTPL - current | - | 150,675 | - | 150,675 | |
| Dongguan K Laser Technology Co., Ltd. | CR Yuanta Cash Income Money Market Fund | - | Financial assets at FVTPL - current | - | 24,281 | - | 24,281 | |
| | China Construction Bank Qianyuan Rixin Yueyi Exchange-traded Financial Products | - | Financial assets at FVTPL - current | - | 21,525 | - | 21,525 | |

Note 1: For information on investments in subsidiaries and associates, refer to Tables 6 and 7.

TABLE 4

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currencies)**

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes Receivable (Payable)/Trade Receivables (Payables) | | Note |
|-----------------------------------|---|---|---------------------|-------------|---------------|--|----------------------|---------------|---|---------------|------|
| | | | Purchases/ Sales | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | |
| Optivision Technology Inc. | Ningbo Optivision Technology Co., Ltd. | Subsidiary | Sales | \$ 248,129 | 19 | Net 120 days from the end of the month | N/A | N/A | \$ 103,044 | 16 | |
| | Dongguan Guangzhi Photoelectric Co., Ltd. | Other related party | Sales | 785,215 | 61 | Net 120 days from the end of the month | N/A | N/A | 462,598 | 72 | |
| K Laser Technology Inc. | Top Band Investment Ltd. | Sub-subsidiary who indirectly owns 99.60% of its shares | Purchases | (355,168) | 75 | Net 60 days from the end of the month | N/A | N/A | (58,161) | 72 | |
| | K Laser International Co., Ltd. | Subsidiary | Sales | 210,482 | 32 | Net 60 days from the end of the month | N/A | N/A | 13,650 | 12 | |
| | K Laser Technology (USA) Co., Ltd. | Sub-subsidiary who indirectly owns 79.75% of its shares | Sales | 145,918 | 22 | Net 60 days from the end of the month | N/A | N/A | 45,579 | 43 | |
| K Laser International Co., Ltd. | K Laser Technology (USA) Co., Ltd. | Subsidiary of the company | Sales | USD 7,156 | 97 | Net 60 days from the end of the month | N/A | N/A | USD 696 | 93 | |
| Top Band Investment Ltd. | Dongguan K Laser Technology Co., Ltd. | Subsidiary of the company | Purchases | RMB(71,911) | 100 | Net 60 days from the end of the month | N/A | N/A | RMB (14,283) | 99 | |
| Wuxi K Laser Technology Co., Ltd. | K Laser Technology (HK) Company Limited | Other related party | Sales | RMB 36,282 | 28 | Net 60 days from the end of the month | N/A | N/A | RMB 7,605 | 22 | |

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name | Related Party | Relationship | Ending Balance (Note 2) | Turnover Rate | Overdue | | Amount Received in Subsequent Period | Allowance for Impairment Loss |
|----------------------------|---|---------------------|---------------------------------|------------------|---------|----------------------------|---|-------------------------------------|
| | | | | | Amount | Actions Taken | | |
| Optivision Technology Inc. | Dongguan Guangzhi Photoelectric Co., Ltd. | Other related party | Trade receivables \$ 468,848 | 1.77 | \$ - | - | \$ 104,978 | \$ 6,250 |
| | Ningbo Optivision Technology Co., Ltd. | Subsidiary | Trade receivables 103,044 | 2.12 | - | - | 41,082 | - |
| Everest Display Inc. | Boxlight Corporation | Other related party | Trade receivables 156,071 | 0.18 | 156,071 | Improve collection efforts | - | 145,428 |

TABLE 6

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars or Foreign Currencies)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | As of December 31, 2019 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) of the Investee | Remark |
|--|--|------------------------|--|----------------------------|-------------------|---------------------------------|-----|-----------------|-----------------------------------|--|--------|
| | | | | December 31, 2019 | December 31, 2018 | Number of Shares (In Thousands) | % | Carrying Amount | | | |
| K Laser Technology Inc. | K Laser China Group Co., Ltd. | British Virgin Islands | Reinvestment company | \$ 722,454 | \$ 860,508 | 21,289,005 | 100 | \$ 2,121,930 | \$ 146,921 | \$ 145,822 | |
| | K Laser International Co., Ltd. | British Virgin Islands | Reinvestment company | 703,856 | 703,856 | 20,361,462 | 100 | 729,085 | 11,917 | 11,917 | |
| | Optivision Technology Inc. | Hsinchu City | Production and sale of optical instruments and electronic components | 300,229 | 307,976 | 22,128,420 | 46 | 338,096 | (19,279) | (9,116) | |
| | iWin Technology Co., Ltd. | British Virgin Islands | Reinvestment company | 97,372 | 91,318 | 157,545 | 49 | 17,856 | (13,130) | (5,812) | |
| | Wellcome Co., Ltd. | Yunlin County | Manufacture, processing and trading of fluorescent pigments and dyes | 26,489 | 26,489 | 2,661,237 | 33 | 110,335 | 28,617 | 9,461 | |
| | Everest Display Inc. | Hsinchu City | Production and sales of optical instruments and wireless communication machinery and equipment | 406,056 | 405,227 | 13,187,334 | 80 | (185,906) | (307,239) | (246,388) | |
| | Chun Yao Co., Ltd. | Hsinchu City | R&D and sales of gastrointestinal endoscopy and other businesses | 264,613 | 147,312 | 8,885,264 | 44 | 241,828 | (23,360) | (11,039) | |
| K Laser International Co., Ltd. | K Laser Technology (USA) Co., Ltd. | USA | Sales of holographic products | USD 6,500 | USD 6,500 | 6,500,000 | 80 | USD 5,040 | USD 854 | USD 681 | |
| | K Laser Technology (Thailand) Co., Ltd. | Thailand | Holographic products manufacturing and sales | USD 1,801 | USD 1,801 | 9,277,984 | 83 | USD 9,502 | USD 687 | USD 568 | |
| | K Laser Technology (Korea) Co., Ltd. | Korea | Holographic products manufacturing and sales | USD 2,946 | USD 2,095 | 677,040 | 100 | USD 2,041 | USD (95) | USD (95) | |
| | K Laser IMEA Co., Ltd. | Mauritius | Reinvestment company | USD 2,600 | USD 2,600 | 2,600,390 | 100 | USD 1,530 | USD (119) | USD (119) | |
| | Amagic Technologies U.S.A. (Dubai) Ltd. | Dubai | Holographic products sales and agency | USD 1,094 | USD 1,094 | - | 100 | USD 2,134 | USD 211 | USD 211 | |
| | K Laser Technology Japan Co., Ltd. | Japan | Holographic products manufacturing and sales | USD 830 | USD 830 | 1,344 | 70 | USD 2,721 | USD 71 | USD 49 | |
| | Guangfeng Optoelectronics (Wuxi) Co., Ltd. | China | Production and sales of optical instruments | USD 1,503 | USD 1,503 | 7,142,857 | 17 | USD 583 | USD (1,119) | USD (193) | |
| | Boxlight Corporation | USA | Production and sales of optical instruments | USD 2,005 | USD 2,005 | 322,157 | 3 | USD 81 | USD (8,333) | USD (686) | |
| | CIO Tech Ltd. | Cayman Islands | Reinvestment company | USD 750 | - | 11,000,000 | 24 | USD 711 | USD (198) | (USD 40) | |
| K Laser China Group Co., Ltd. | K Laser China Group Holding Co., Limited | Cayman Islands | Reinvestment company | RMB 180,503 | RMB 211,291 | 102,901,766 | 100 | RMB 497,307 | RMB 32,728 | RMB 32,598 | |
| | Holoprint Co., Ltd. | British Virgin Islands | Reinvestment company | RMB 1 | RMB 1 | 1 | 100 | RMB - | RMB - | RMB - | |
| K Laser China Group Holding Co., Limited | K Laser Technology (HK) Co., Ltd. | Hong Kong | Sales agent of holographic products | RMB 1,092 | RMB 1,092 | 1,283,500 | 100 | RMB 8,010 | RMB 566 | RMB 566 | |
| | Holomagic Co., Ltd. | British Virgin Islands | Reinvestment company | RMB 72,440 | RMB 72,440 | 30,000 | 100 | RMB 225,012 | RMB 4,400 | RMB 4,544 | |
| | Top Band Investment., Ltd. | British Virgin Islands | Reinvestment company | RMB 130,106 | RMB 130,106 | 50,000 | 100 | RMB 249,160 | RMB 32,555 | RMB 32,543 | |
| | iWin Technology Co., Ltd. | British Virgin Islands | Reinvestment company | RMB 20,825 | RMB 19,459 | 163,975 | 51 | RMB 4,408 | RMB (2,943) | RMB (1,501) | |

(Continued)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | As of December 31, 2019 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) of the Investee | Remark |
|---|--|----------------|---|----------------------------|-------------------|---------------------------------|-----|-----------------|-----------------------------------|--|--------|
| | | | | December 31, 2019 | December 31, 2018 | Number of Shares (In Thousands) | % | Carrying Amount | | | |
| Holomagic Co., Ltd. | Treasure Access Limited | Hong Kong | Reinvestment company | RMB 29,243 | RMB 29,243 | 10,000 | 100 | RMB 222,366 | RMB 4,718 | RMB 4,718 | |
| Top Band Investment Ltd. | Union Bloom Co., Ltd. | Hong Kong | Reinvestment company | RMB 113,329 | RMB 113,329 | 10,000 | 100 | RMB 245,363 | RMB 30,691 | RMB 30,691 | |
| K Laser IMEA Co., Ltd. | Amagic Holographics India Private Limited | India | Holographic products manufacturing and sales | USD 2,508 | USD 2,508 | 10,915,594 | 100 | USD 1,474 | USD (118) | USD (118) | |
| iWin Technology Co., Ltd. | Finity Laboratories | USA | Holographic technology research and development | USD 700 | USD 700 | 700,000 | 100 | USD 1,095 | USD (1) | USD (1) | |
| Treasure Access Limited | Wuxi K Laser Technology Co., Ltd | China | Holographic products manufacturing and sales | RMB 44,156 | RMB 44,156 | - | 100 | RMB 149,539 | RMB 7,403 | RMB 7,403 | |
| | Hunan Herui Laser Technology Co., Ltd. | China | R&D and production of new environmental friendly packaging materials and anti-counterfeiting products | RMB 21,952 | RMB 21,952 | - | 49 | RMB 32,793 | RMB 9,520 | RMB 4,665 | |
| | Jiangsu Xinguang Laser Packing Materials Co., Ltd. | China | Production of special film coating, decorative film and environmental friendly transfer paper, etc. | RMB 26,600 | RMB 26,600 | 26,600,000 | 33 | RMB 34,553 | RMB (17,406) | RMB (5,782) | |
| Union Bloom Co., Ltd. | Dongguan K Laser Technology Co., Ltd. | China | Holographic products manufacturing and sales | RMB 165,621 | RMB 165,621 | - | 100 | RMB 250,400 | RMB 34,284 | RMB 34,284 | |
| Wuxi K Laser Technology Co., Ltd | Foshan Donglin Packing Materials Co., Ltd. | China | Production of cigarette packaging materials and extended products | RMB 8,253 | RMB 8,253 | - | 25 | RMB 8,140 | RMB 2,255 | RMB 564 | |
| Dongguan K Laser Technology Co., Ltd. | Hunan Hexin Packing Materials Co., Ltd. | China | Mainly engaged in the production, processing and sales of films and cigarette packs, and cigarette paper segmentation | RMB 48,100 | RMB 48,100 | - | 49 | RMB 47,740 | RMB 10,567 | RMB 5,178 | |
| K Laser Technology Inc. | Bright Triumph Limited | Mauritius | Reinvestment company | 242,173 | 242,173 | 7,913,767 | 100 | 129,951 | 125 | 125 | |
| Bright Triumph Limited | Ningbo Optivision Technology Co., Ltd. | China | Manufacturing, processing and production of brightening film, prism film, diffusion film and optical film | USD 5,258 | USD 5,258 | - | 100 | USD 2,520 | USD 3 | USD 3 | |
| Everest Display Inc. | Everest Display International Inc. | Samoa | Reinvestment company | 217,125 | 217,125 | 6,820,810 | 100 | 26,471 | 46,733 | 46,733 | |
| | Boxlight Corporation | USA | Production and sales of optical instruments | 140,258 | 140,258 | 707,979 | 6 | 5,347 | (257,908) | (120,816) | |
| Everest Display International Inc. | Guangfeng Optoelectronics (Wuxi) Co., Ltd. | China | Production and sales of optical instruments | USD 2,014 | USD 2,014 | 11,456,748 | 28 | USD 602 | USD (1,119) | USD (310) | |
| | Boxlight Corporation | USA | Production and sales of optical instruments | - | - | 1,903,587 | 16 | 480 | USD (8,333) | USD 1,870 | |
| Insight Medical Solutions Inc. | Insight Medical Solutions Holdings Inc. | Cayman Islands | Reinvestment company | USD 750 | - | 750,000 | 100 | 22,022 | (819) | (819) | |
| | Yun Chuang Medical Materials Co., Ltd. | Hsinchu City | Sales of gastrointestinal endoscopy and other businesses | 20,000 | - | 2,000,000 | 80 | 12,397 | (8,219) | (3,563) | |
| Insight Medical Solutions Holdings Inc. | Chun Yao Medical Technology (Wuxi) Co., Ltd. | China | R&D and sales of gastrointestinal endoscopy and other businesses | USD 750 | - | 750,000 | 100 | USD 734 | USD (27) | USD (27) | |

(Concluded)

TABLE 7

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currencies)

- a. Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the period and repatriations of investment income:

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of December 31, 2019 | Accumulated Repatriation of Investment Income as of December 31, 2019 | Note |
|---|--|--|----------------------|---|---------------------|--------|---|-----------------------------------|--|--------------------------|---|---|------|
| | | | | | Outward | Inward | | | | | | | |
| Wuxi K Laser Technology Co., Ltd | Research and development, production of laser holography products, optoelectronic equipment and optoelectronic materials | \$ 543,889 (RMB 126,339) | b. | \$ 200,566 (USD 6,690) | \$ - | \$ - | \$ 200,566 (USD 6,690) | \$ 31,870 (RMB 7,403) | 100 | \$ 31,870 (RMB 7,403) | \$ 643,765 (RMB 149,539) | \$ 179,097 (RMB 41,602) | |
| Dongguan K Laser Technology Co., Ltd. | Engaged in the production and sales of other polyethylene and rigid PVC films and foils | 712,998 (RMB 165,621) | b. | 61,729 (USD 2,059) | - | - | 61,729 (USD 2,059) | 147,593 (RMB 34,284) | 100 | 147,593 (RMB 34,284) | 1,077,972 (RMB 250,400) | 419,931 (RMB 97,545) | |
| Dongguan Japan-US Laser Printing Co., Ltd. (Note 5) | Engaged in the production and sales of color box prints and laser prints | 109,080 (RMB 25,338) | a. | 64,457 (USD 2,150) | - | - | 64,457 (USD 2,150) | - | - | - | - | - | |
| Hunan Herui Laser Technology Co., Ltd. | R&D, production and operation of new environmental friendly packaging materials and anti-counterfeiting products such as laser paper and anodized aluminum | \$ 222,999 (RMB 51,800) (Note 2) | b. | - | - | - | - | 40,984 (RMB 9,520) | 49 | 20,083 (RMB 4,665) | 141,174 (RMB 32,793) | 16,372 (RMB 3,803) | |
| Jiangsu Xinguang Laser Packing Materials Co., Ltd. | Production of special film coating, decorative film and environmental friendly transfer paper, etc. | \$ 344,400 (RMB 80,000) (Note 3) | b. | - | - | - | - | (74,933) (RMB 17,406) | 33 | (24,892) (RMB 5,782) | 148,751 (RMB 34,553) | 37,307 (RMB 8,666) | |
| Guangfeng Optoelectronics (Wuxi) Co., Ltd. | R&D and production of large LCD projection displays, optical engines for displays, projection tubes, etc. | 177,934 (RMB 41,332) | b. | 64,457 (USD 1,503) | - | - | 45,060 (USD 1,503) | (33,548) (RMB -1,119) | 17 | (5,786) (USD -193) | 17,478 (USD 583) | - | |

- b. Limit on the amount of investments in the mainland China area:

| Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2019 | Investment Amount Authorized by the Investment Commission, MOEA | Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA |
|--|---|--|
| \$ 371,812 (USD 12,402) | \$ 1,810,312 (USD 60,384) (Note 4) | \$ 1,440,653 (Note 1) |

The method of investment includes the following:

- a. Indirect investment in mainland China through remittance across third region.
- b. Indirect investment in mainland China through companies registered in a third region.

Note 1: Obtained the approval of operation headquarters according to the regulations, so the investment amount is not subject to the limit of 60% net worth or NT\$80 million.

Note 2: Including US\$2,512 thousand of cash investment through businesses in the third region.

Note 3: Including US\$3,705 thousand of cash investment through businesses in the third region.

Note 4: Including surplus reinvestment amount of US\$11,748 thousand.

Note 5: The equity investment had been disposed of, but not yet cancelled by the investment review committee.

c. Significant direct or indirect transactions with investees located in the mainland China area:

| Related party | Relationship | Transaction Type | Amount | Transaction Details | | | Notes Receivable (Payable)/Trade Receivables (Payables) | | Unrealized (Gain) Loss |
|---------------------------------------|--|------------------|----------------------|---------------------|---|--|---|----|------------------------|
| | | | | Price | Payment Terms | Comparison with Normal Transactions | Ending Balance | % | |
| Wuxi K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Sales | \$ 705 (USD 23) | Negotiation | Net 60 days from the end of the month of when invoice is issued | Not significantly different from those of sales to third parties | \$ - (USD -) | - | \$ - |
| Dongguan K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Sales | 8,322 (USD 270) | Negotiation | Net 90 days from the end of the month of when invoice is issued | Not significantly different from those of sales to third parties | 2,396 (USD 80) | 2 | (509) |
| Wuxi K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Purchases | 25,845 (USD 833) | Negotiation | Net 60 days from the end of the month of when invoice is issued | Not significantly different from those of sales to third parties | 1,380 (USD 46) | 2 | - |
| Dongguan K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Purchases | 355,168 (USD 11,460) | Negotiation | Net 60 days from the end of the month of when invoice is issued | Not significantly different from those of sales to third parties | 58,161 (USD 1,940) | 72 | - |

d. The amount of asset transactions and profit or loss generated: None.

e. Companies invested in mainland China provides endorsements, guarantees, or collateral directly and indirectly through businesses in the third region: Table 2.

f. Provide direct and indirect accommodation of funds to the companies invested in mainland China through the third region: Table 1.

g. Other transactions that have a significant impact on the current profit or loss or financial status: None.

TABLE 8

K LASER TECHNOLOGY INC. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars or Foreign Currencies)

| No. | Company Name | Counterparty | Nature of Relationship | Intercompany Transactions | | | |
|-----|-----------------------|-------------------|------------------------------|---------------------------|------------|-------|--|
| | | | | Financial Statements Item | Amount | Terms | Percentage of Consolidated Net Revenue or Total Assets % |
| 0 | K Laser | K Laser USA | Parent company to subsidiary | Trade receivables | \$ 47,479 | — | 1 |
| 0 | K Laser | International | Parent company to subsidiary | Trade receivables | 13,650 | — | - |
| 0 | K Laser | K Laser Japan | Parent company to subsidiary | Trade receivables | 15,640 | — | - |
| 0 | K Laser | Top Band | Parent company to subsidiary | Trade payables | 58,161 | — | 1 |
| 0 | K Laser | Top Band | Parent company to subsidiary | Purchases | 355,168 | — | 7 |
| 0 | K Laser | K Laser USA | Parent company to subsidiary | Sales | 145,918 | — | 3 |
| 0 | K Laser | K Laser Japan | Parent company to subsidiary | Sales | 73,137 | — | 1 |
| 0 | K Laser | International | Parent company to subsidiary | Sales | 210,482 | — | 4 |
| 0 | K Laser | Holomagic | Parent company to subsidiary | Purchases | 25,845 | — | - |
| 1 | Top Band | Dongguan K Laser | Subsidiary to subsidiary | Trade payables | RMB 14,283 | — | 1 |
| 1 | Top Band | Dongguan K Laser | Subsidiary to subsidiary | Other receivables | RMB 2,891 | — | - |
| 1 | Top Band | Dongguan K Laser | Subsidiary to subsidiary | Purchases | RMB 71,911 | — | 6 |
| 1 | Top Band | Amagic | Subsidiary to subsidiary | Sales | RMB 2,988 | — | - |
| 2 | Dongguan K Laser | Wuxi K Laser | Subsidiary to subsidiary | Trade receivables | RMB 3,004 | — | - |
| 2 | Dongguan K Laser | Hunan Herui Laser | Subsidiary to subsidiary | Trade receivables | RMB 2,799 | — | - |
| 2 | Dongguan K Laser | Wuxi K Laser | Subsidiary to subsidiary | Sales | RMB 6,207 | — | 1 |
| 2 | Dongguan K Laser | Hunan Herui Laser | Subsidiary to subsidiary | Sales | RMB 6,907 | — | 1 |
| 2 | Dongguan K Laser | Wuxi K Laser | Subsidiary to subsidiary | Purchases | RMB 3,118 | — | - |
| 3 | Wuxi K Laser | K Laser Hong Kong | Subsidiary to subsidiary | Trade receivables | RMB 7,605 | — | - |
| 3 | Wuxi K Laser | Hunan Herui Laser | Subsidiary to subsidiary | Trade receivables | RMB 2,346 | — | - |
| 3 | Wuxi K Laser | K Laser Hong Kong | Subsidiary to subsidiary | Sales | RMB 36,282 | — | 3 |
| 3 | Wuxi K Laser | Hunan Herui Laser | Subsidiary to subsidiary | Sales | RMB 3,295 | — | - |
| 3 | Wuxi K Laser | Holomagic | Subsidiary to subsidiary | Sales | RMB 5,172 | — | - |
| 3 | Wuxi K Laser | K Laser Korea | Subsidiary to subsidiary | Sales | RMB 2,859 | — | - |
| 4 | Optivision Technology | Ningbo Optivision | Subsidiary to subsidiary | Trade receivables | 103,044 | — | 2 |
| 4 | Optivision Technology | Ningbo Optivision | Subsidiary to subsidiary | Sales | 248,129 | — | 5 |
| 5 | International | K Laser USA | Subsidiary to subsidiary | Trade receivables | USD 696 | — | - |
| 5 | International | K Laser USA | Subsidiary to subsidiary | Sales | USD 7,156 | — | 4 |

Note 1: Information on transactions between parent company and subsidiaries is specified in the column number. The numbers should be filled in as follows:

Note 2: The Company is assigned as “0”.

Note 3: Numbers are assigned to subsidiaries by types of companies starting from “1”.

Note 4: The Company has the following 3 types of relationships with counterparties, including:

Note 5: Parent company to subsidiary.

Note 6: Subsidiary to parent company.

Note 7: Subsidiary to subsidiary.

Note 8: When calculating the ratio of a transaction to the consolidated revenue or total assets, if it is listed as a liability, it shall be calculated as the ratio of the balance at the end of the fiscal period to the total assets; if it is listed as a profit or loss, it shall be calculated as the ratio of the cumulative amount during the fiscal period to the consolidated revenue.

Note 9: Transactions listed in the table may be determined based on the principle of materiality by the Company.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
K Laser Technology Inc.

Opinion

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

In our opinion, based on our audits and the report of other auditors (refer to the other matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit of the financial statements for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission of the Republic of China on February 25, 2020, and auditing standards generally accepted in the Republic of China. We conducted our audit of the financial statements for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter of the Company's financial statements for the year ended December 31, 2019 is stated as follows:

Recognition of Sales Revenue

The sales revenue of the Group is mainly generated from the manufacture of laser films, anti-counterfeit labels, precision optical components and optical instruments, etc., which has been affected by increasingly saturated market and competition within the industry. In addition to developing new products in recent years, acquiring new customers is also a key operational strategy. To meet the demand for sales to customers in this year, inventories are stored in overseas shipping warehouse whereby warehouse custodian is responsible for the checking, acceptance and storage of inventories, as well as sending out shipment information to the Company for verification. The Company recognized sales revenue based on the shipment information provided by warehouse custodian; therefore, the validity of sales revenue transactions recognized from overseas shipping warehouse and timing of recognition was identified as a key audit matter for the year ended December 31, 2019. Refer to Note 4 to the financial statements for the details on accounting policies related to revenue recognition.

Our key audit procedures performed in respect of the recognition of sales revenue were as follows:

1. We understood the internal control procedures for the recognition of sales revenue from overseas shipping warehouse, tested and assessed the effectiveness of related internal controls.
2. We performed substantive tests of sales revenue transactions from overseas shipping warehouse.
3. We confirmed the ending inventories of overseas shipping warehouse by letter.

Other Matter

The financial statements of some investee companies accounted for using the equity method were audited by other auditors. The amounts within the financial statements for those investee companies were based solely on the reports of other auditors. As of December 31, 2019 and 2018, the aforementioned investments accounted for using the equity method were NT\$252,995 thousand and NT\$246,267 thousand, respectively, which accounted for 5.77% and 5.79% of the total assets, respectively. For the years ended December 31, 2019 and 2018, the amounts of investment gain recognized by the aforementioned investee companies and accounted for using the equity method were NT\$14,863 thousand and NT\$17,103 thousand, respectively. Refer to Note 32 to the financial statements for relevant information on the above investee companies which we have not audited but were audited by other auditors.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with

relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partners on the audit resulting in this independent auditors' report are Wen-Yea Shyu and Yi-Min Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 30, 2020

Notice to Readers

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

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

K LASER TECHNOLOGY INC.

BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

| ASSETS | 2019 | | 2018 | |
|--|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 283,611 | 6 | \$ 114,526 | 3 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 5,296 | - | 4,995 | - |
| Notes receivable (Notes 4 and 8) | 3,233 | - | 2,800 | - |
| Trade receivables (Notes 4 and 8) | 26,184 | 1 | 31,520 | 1 |
| Trade receivables from related parties (Notes 4, 8 and 27) | 82,343 | 2 | 88,587 | 2 |
| Other receivables (Note 27) | 13,444 | - | 9,503 | - |
| Deferred income tax assets (Notes 4 and 22) | 137 | - | - | - |
| Inventories (Notes 4 and 9) | 36,711 | 1 | 33,779 | 1 |
| Other current assets (Note 16) | 4,647 | - | 5,267 | - |
| Total current assets | 455,606 | 10 | 290,977 | 7 |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10) | 36,681 | 1 | 67,028 | 2 |
| Investments accounted for using the equity method (Notes 4 and 11) | 3,559,130 | 81 | 3,601,293 | 85 |
| Property, plant and equipment (Notes 4, 12 and 27) | 159,873 | 4 | 199,166 | 5 |
| Right-of-use assets (Notes 4 and 13) | 79,680 | 2 | - | - |
| Investment properties, net (Notes 4 and 14) | 49,908 | 1 | 51,552 | 1 |
| Other intangible assets (Notes 4 and 15) | 3,009 | - | 3,751 | - |
| Deferred tax assets (Notes 4 and 22) | 17,800 | - | 19,300 | - |
| Other non-current assets (Notes 6 and 16) | 22,440 | 1 | 21,971 | - |
| Total non-current assets | 3,928,521 | 90 | 3,964,061 | 93 |
| TOTAL | <u>\$ 4,384,127</u> | <u>100</u> | <u>\$ 4,255,038</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 17) | \$ 234,000 | 5 | \$ 295,000 | 7 |
| Short-term notes and bills payable (Note 17) | 149,966 | 4 | 99,960 | 3 |
| Trade payables | 21,049 | - | 24,794 | 1 |
| Trade payables to related parties (Note 27) | 59,549 | 1 | 44,174 | 1 |
| Other payables (Notes 18 and 27) | 52,905 | 1 | 54,345 | 1 |
| Current tax liabilities (Notes 4 and 22) | - | - | 4,958 | - |
| Lease liabilities - current (Notes 4 and 13) | 6,227 | - | - | - |
| Current portion of long-term liabilities (Note 17) | - | - | 54,000 | 1 |
| Other current liabilities | 53,003 | 1 | 1,687 | - |
| Total current liabilities | 576,699 | 14 | 578,918 | 14 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 17) | 1,120,000 | 25 | 966,000 | 23 |
| Lease liabilities - non-current (Notes 4 and 13) | 73,993 | 2 | - | - |
| Net defined benefit liabilities - non-current (Notes 4 and 19) | 25,498 | 1 | 22,362 | - |
| Investment loan accounted for under the equity method (Notes 4 and 11) | 185,906 | 4 | - | - |
| Other non-current liabilities | 942 | - | 942 | - |
| Total non-current liabilities | 1,406,339 | 31 | 989,304 | 23 |
| Total liabilities | 1,983,038 | 45 | 1,568,222 | 37 |
| EQUITY (Note 20) | | | | |
| Share capital | | | | |
| Ordinary shares | 1,593,246 | 36 | 1,593,246 | 37 |
| Capital reserve | 551,531 | 12 | 529,962 | 13 |
| Retained earnings | | | | |
| Legal reserve | 213,042 | 5 | 206,459 | 5 |
| Special reserve | 201,090 | 5 | 162,918 | 4 |
| Unappropriated earnings | 255,807 | 6 | 488,494 | 11 |
| Total retained earnings | 669,939 | 16 | 857,871 | 20 |
| Other equity | | | | |
| Exchange differences on translation of foreign financial statements | (278,472) | (6) | (195,571) | (5) |
| Unrealized gain on financial assets at fair value through other comprehensive income | (33,033) | (1) | (5,574) | - |
| Total other equity | (311,505) | (7) | (201,145) | (5) |
| Treasury shares | (102,122) | (2) | (93,118) | (2) |

(Continued)

K LASER TECHNOLOGY INC.**BALANCE SHEETS****DECEMBER 31, 2019 AND 2018****(In Thousands of New Taiwan Dollars)**

| | 2019 | | 2018 | |
|--------------|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| Total equity | \$ 2,401,089 | 55 | \$ 2,686,816 | 63 |
| TOTAL | <u>\$ 4,384,127</u> | <u>100</u> | <u>\$ 4,255,038</u> | <u>100</u> |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC.

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

| | 2019 | | 2018 | |
|---|-----------------|-------------|-----------------|------------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 4 and 27) | \$ 650,286 | 100 | \$ 617,703 | 100 |
| OPERATING COSTS (Notes 9 and 27) | <u>542,114</u> | <u>83</u> | <u>503,139</u> | <u>81</u> |
| GROSS PROFIT | 108,172 | 17 | 114,564 | 19 |
| UNREALIZED LOSS ON SALES | (13,622) | (2) | (13,202) | - |
| REALIZED GAIN ON SALES | <u>13,202</u> | <u>2</u> | <u>13,558</u> | <u>-</u> |
| REALIZED GROSS PROFIT | <u>107,752</u> | <u>17</u> | <u>114,920</u> | <u>19</u> |
| OPERATING EXPENSES (Note 27) | | | | |
| Selling and marketing | 38,427 | 6 | 28,076 | 5 |
| General and administrative | 79,938 | 12 | 57,716 | 9 |
| Research and development | <u>62,515</u> | <u>10</u> | <u>59,921</u> | <u>10</u> |
| Total operating expenses | <u>180,880</u> | <u>28</u> | <u>145,713</u> | <u>24</u> |
| LOSS FROM OPERATIONS | <u>(73,128)</u> | <u>(11)</u> | <u>(30,793)</u> | <u>(5)</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profit or loss of subsidiaries and associates accounted for using the equity method (Note 11) | (105,154) | (16) | 56,520 | 9 |
| Interest income (Note 27) | 2,618 | - | 1,080 | - |
| Other income (Note 27) | 53,245 | 8 | 51,936 | 8 |
| (Loss) gain on disposal of property, plant and equipment | (157) | - | 309 | - |
| (Loss) gain on foreign exchange | (3,646) | - | 7,500 | 1 |
| Gain (loss) on financial assets at fair value through profit or loss | 301 | - | (392) | - |
| Interest expense | (21,406) | (3) | (19,984) | (3) |
| Miscellaneous expense | (11,306) | (2) | (9,297) | (1) |
| Gain on disposal of investment | 45,383 | 7 | 16,916 | 3 |
| Impairment loss | <u>(4,539)</u> | <u>(1)</u> | <u>-</u> | <u>-</u> |
| Total non-operating income and expenses | <u>(44,661)</u> | <u>(7)</u> | <u>104,588</u> | <u>17</u> |
| (LOSS) PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS | (117,789) | (18) | 73,795 | 12 |
| INCOME TAX EXPENSE (Notes 4 and 22) | <u>(2,046)</u> | <u>-</u> | <u>(7,966)</u> | <u>(1)</u> |

(Continued)

K LASER TECHNOLOGY INC.

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

| | 2019 | | 2018 | |
|---|--------------|------|-----------|-----|
| | Amount | % | Amount | % |
| NET (LOSS) PROFIT FROM CONTINUING OPERATIONS | \$ (119,835) | (18) | \$ 65,829 | 11 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 22) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans | (4,228) | (1) | (872) | - |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income | (27,690) | (4) | (23,681) | (4) |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations | (82,979) | (13) | (17,986) | (3) |
| Other comprehensive loss for the year, net of income tax | (114,897) | (18) | (42,539) | (7) |
| TOTAL COMPREHENSIVE LOSS (INCOME) FOR THE YEAR | \$ (234,732) | (36) | \$ 23,290 | 4 |
| EARNINGS (LOSS) PER SHARE (Note 23) | | | | |
| From continuing operations | | | | |
| Basic | \$(0.79) | | \$0.41 | |
| Diluted | | | \$0.41 | |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC.

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

| | Share Capital | Capital Surplus | Retained Earnings | | | Others | | Additional Paid-In Capital of Treasury Shares | Total Equity |
|--|---------------|-----------------|-------------------|-----------------|----------------------------|--|---|--|--------------|
| | | | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating the Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | | |
| BALANCE AT JANUARY 1, 2018 | \$ 1,653,246 | \$ 548,370 | \$ 190,957 | \$ 162,918 | \$ 561,320 | \$ (177,585) | \$ - | \$ (31,202) | \$ 2,908,024 |
| Effect of retrospective application of IFRS 9 | - | - | - | - | - | - | 18,107 | - | 18,107 |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 1,653,246 | 548,370 | 190,957 | 162,918 | 561,320 | (177,585) | 18,107 | (31,202) | 2,926,131 |
| Appropriation of 2017 earnings (Note 20) | | | | | | | | | |
| Legal reserve | - | - | 15,502 | - | (15,502) | - | - | - | - |
| Cash dividends | - | - | - | - | (91,462) | - | - | - | (91,462) |
| Net profit for the year ended December 31, 2018 | - | - | - | - | 65,829 | - | - | - | 65,829 |
| Other comprehensive loss for the year ended December 31, 2018 | - | - | - | - | (872) | (17,986) | (23,681) | - | (42,539) |
| Changes in associates and joint ventures accounted for using the equity method | - | - | - | - | (21,046) | - | - | - | (21,046) |
| Changes in percentage of ownership interests in subsidiaries | - | 88 | - | - | - | - | - | - | 88 |
| Buy-back of treasury shares | - | - | - | - | - | - | - | (150,185) | (150,185) |
| Cancellation of treasury shares | (60,000) | (18,496) | - | - | (9,773) | - | - | 88,629 | - |
| BALANCE AT DECEMBER 31, 2018 | 1,593,246 | 529,962 | 206,459 | 162,918 | 488,494 | (195,571) | (5,574) | (93,118) | 2,686,816 |
| Appropriation of 2018 earnings (Note 20) | | | | | | | | | |
| Legal reserve | - | - | 6,583 | - | (6,583) | - | - | - | - |
| Special reserve | - | - | - | 38,226 | (38,226) | - | - | - | - |
| Cash dividends | - | - | - | - | (62,043) | - | - | - | (62,043) |
| Net loss for the year ended December 31, 2019 | - | - | - | - | (119,835) | - | - | - | (119,835) |
| Other comprehensive loss for the year ended December 31, 2019 | - | - | - | - | (4,228) | (82,979) | (27,690) | - | (114,897) |
| Buy-back of treasury shares (Note 20) | - | - | - | - | - | - | - | (17,422) | (17,422) |

(Continued)

K LASER TECHNOLOGY INC.

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

| | Share Capital | Capital Surplus | Retained Earnings | | | Others | | Additional Paid-In Capital of Treasury Shares | Total Equity |
|---|---------------------|-------------------|-------------------|-------------------|-------------------------|--|---|---|-----------------------|
| | | | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating the Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | | |
| Acquisition of the Company's shares by subsidiaries as treasury shares (Note 20) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (22,785) | \$ (22,785) |
| Share-based payment transactions (Note 24) | - | 21,060 | - | - | - | - | - | 31,203 | 52,263 |
| Differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries | - | 211 | - | (54) | (177) | 78 | 231 | - | 289 |
| Changes in percentage of ownership interests in subsidiaries | - | 298 | - | - | (1,595) | - | - | - | (1,297) |
| BALANCE AT DECEMBER 31, 2019 | <u>\$ 1,593,246</u> | <u>\$ 551,531</u> | <u>\$ 213,042</u> | <u>\$ 201,090</u> | <u>\$ 255,807</u> | <u>\$ (278,472)</u> | <u>\$ (33,033)</u> | <u>\$ (102,122)</u> | <u>\$ (2,401,089)</u> |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC.

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

| | 2019 | 2018 |
|---|--------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss) income before income tax | \$ (117,789) | \$ 73,795 |
| Adjustments for: | | |
| Depreciation expense | 34,107 | 27,621 |
| Amortization expense | 742 | 640 |
| Expected credit impairment loss recognized | - | (3,008) |
| (Gain) loss on financial assets at fair value through profit or loss | (301) | 392 |
| Interest expense | 21,406 | 19,984 |
| Interest income | (2,618) | (1,080) |
| Share-based compensation expense | 20,359 | - |
| Share of (profit) loss of subsidiaries and associates accounted for using the equity method | 105,154 | (56,520) |
| Loss (gain) on disposal and write-down of property, plant and equipment | 157 | (309) |
| Gain on disposal of investment | (45,383) | (16,916) |
| Impairment loss recognized on financial assets | 4,539 | - |
| Loss on inventory valuation and obsolescence | - | 3,344 |
| Unrealized gain on sales with subsidiaries, associates and joint ventures | 13,622 | 13,202 |
| Realized gain on sales with subsidiaries, associates and joint ventures | (13,202) | (13,558) |
| Changes in operating assets and liabilities: | | |
| Notes receivable | (433) | 1,312 |
| Trade receivables | 5,336 | 9,955 |
| Trade receivables from related parties | 6,244 | (48,651) |
| Other receivables | (4,019) | 914 |
| Inventories | (2,932) | (6,475) |
| Other current assets | 620 | (2,047) |
| Other non-current assets | (1,554) | 633 |
| Notes payable | - | (97) |
| Trade payables | (3,745) | 5,074 |
| Trade payables to related parties | 15,375 | 11,635 |
| Other payables | 2,467 | 2,696 |
| Other current liabilities | 2,078 | 161 |
| Net defined benefit liabilities - current | (1,092) | 608 |
| Cash generated from operations | 39,138 | 23,335 |
| Interest received | 2,618 | 1,080 |
| Interest paid | (19,886) | (19,130) |
| Income tax paid | (5,563) | (8,057) |
| Net cash generated from operating activities | 16,307 | 2,772 |

(Continued)

K LASER TECHNOLOGY INC.

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

| | 2019 | 2018 |
|---|-------------------|-------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of long-term equity investment accounted for using the equity method | \$ (174,924) | \$ (116,643) |
| Proceeds from disposal of long-term equity investment accounted for using the equity method | 18,830 | 28,909 |
| Capital reduction by returning shares of investee companies accounted for using the equity method | 138,054 | - |
| Purchase of property, plant and equipment | (8,620) | (26,667) |
| Proceeds from disposal of property, plant and equipment | 13,479 | 624 |
| Increase in refundable deposits | (463) | (5,991) |
| Purchase of intangible assets | - | (588) |
| Increase in other financial assets | - | (5,000) |
| Dividends received from subsidiaries and associates | <u>81,935</u> | <u>259,834</u> |
| Net cash generated from investing activities | <u>68,291</u> | <u>134,478</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term borrowings | (61,000) | 95,000 |
| Increase (decrease) in short-term notes and bills payable | 50,000 | (100,000) |
| Proceeds from long-term borrowings | 870,000 | 610,000 |
| Repayments of long-term borrowings | (770,000) | (650,000) |
| Repayment of the principal portion of lease liabilities | (6,189) | - |
| Dividends paid | (62,043) | (91,462) |
| Payments for buy-back of treasury shares | (17,422) | (150,185) |
| Purchase of treasury shares by employees | <u>81,141</u> | <u>-</u> |
| Net cash generated from (used in) financing activities | <u>84,487</u> | <u>(286,647)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 169,085 | (154,941) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>114,526</u> | <u>269,467</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 283,611</u> | <u>\$ 114,526</u> |

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

(With Deloitte & Touche auditors' report dated March 30, 2020)

(Concluded)

K LASER TECHNOLOGY INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

K LASER Technology Inc. (the “Company”) was incorporated in Hsinchu Science-Based Industrial Park in April 1988, and mainly engaged in the research and development, production, manufacture and sales of holographic products, specific materials and equipment for holographic embossing products, optical coating evaporation, as well as import and export trades of related products.

On December 9, 1999, the Company’s shares began trading on the Taipei Exchange (TPEX), and were subsequently listed on the Taiwan Stock Exchange (TWSE) on September 17, 2001.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 30, 2020.

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

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

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

1) IFRS 16 “Leases”

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

Definition of a lease

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

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company presents

the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in mainland China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the statements of cash flows.

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

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Company applies IAS 36 to all right-of-use assets for assessing the impairment.

The Company also applies the following practical expedients:

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

The lessee's weighted average incremental borrowing rate used by the Company to calculate lease liabilities recognized on January 1, 2019 was 1.37%. The reconciliation between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is presented as follows:

| | |
|---|------------------|
| Future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 | \$ 97,353 |
| Less: Recognition exemption for leases of low-value assets | (167) |
| Undiscounted amounts on January 1, 2019 | <u>\$ 97,186</u> |
| Lease liabilities recognized on January 1, 2019 | <u>\$ 86,142</u> |

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

| | As Originally Stated on January 1, 2019 | Adjustments Arising from Initial Application | Restated on January 1, 2019 |
|------------------------|--|---|--|
| Right-of-use assets | \$ - | \$ 86,142 | \$ 86,142 |
| Total effect on assets | \$ - | \$ 86,142 | \$ 86,142 |

(Continued)

| | As Originally Stated on January 1, 2019 | Adjustments Arising from Initial Application | Restated on January 1, 2019 |
|---------------------------------|---|---|---------------------------------|
| Other liabilities - current | \$ - | \$ 6,156 | \$ 6,156 |
| Other liabilities - non-current | <u>-</u> | <u>79,986</u> | <u>79,986</u> |
| Total effect on liabilities | <u>\$ -</u> | <u>\$ 86,142</u> | <u>\$ 86,142</u> (Concluded) |

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

3) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulates that if a contractual term of a financial asset permits the issuer (i.e., the debtor) to prepay a debt instrument or permits the holder (i.e., the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of the principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explain that reasonable compensation may be paid or received by either of the parties, i.e., a party may receive reasonable compensation when it chooses to terminate the contract early.

4) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings.

5) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company applied the above amendments prospectively.

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

| New IFRSs | Effective Date Announced by IASB |
|--|---|
| Amendments to IFRS 3 “Definition of a Business” | January 1, 2020 (Note 1) |
| Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform” | January 1, 2020 (Note 2) |
| Amendments to IAS 1 and IAS 8 “Definition of Material” | January 1, 2020 (Note 3) |

Note 1: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

1) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets by the Company must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

2) Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

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

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

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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Company sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate, the gain or loss resulting from the transaction is recognized in full. Also, when the Company loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Company sells or contributes assets that do not constitute a business to an associate, the gain or loss resulting from the transaction is recognized only to the extent of the Company’s interest as an unrelated investor in the associate or joint venture, i.e., the Company’s share of the gain or loss is eliminated. Also, when the Company loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Company’s interest as an unrelated investor in the associate or joint venture, i.e., the Company’s share of the gain or loss is eliminated.

2) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Company shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Company will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Company must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Company’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Company’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 “Financial Instruments: Presentation”, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Statement of compliance

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

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

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

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

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, the share of other comprehensive income of subsidiaries and the related equity items, as appropriate, in the parent company only financial statements.

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

Current assets include:

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

Current liabilities include:

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

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

d. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting financial statements, the assets and liabilities of the Company's foreign operations are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

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

f. Investments in subsidiaries and associates

The Company uses the equity method to account for its investments in subsidiaries and associates.

Investments in subsidiaries

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the

impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

Investments in associates

An associate refers to an entity that have significant influence over the Company but is not subsidiary or joint venture.

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

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

If the Company subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the net assets of the associate. The Company records such a difference as an adjustment to capital surplus (with respect to net changes in share rights of the associate recognized under the equity method) and to investments recognized with the equity method. If the Company's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If capital surplus is debited for the aforementioned adjustment and the balance of capital surplus generated from the investments accounted for using equity method is insufficient, then retained earnings are debited for such difference.

When the Company's share of loss on an associate equals or exceeds its interests in the associate (including the carrying amount of the associate carried with equity method, and other long-term interests comprising net investment in the associate by the Company), further losses are not recognized. The Company recognizes additional losses and liabilities only when legal or constructive obligation occurs or when paying for the associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized

to the extent that the recoverable amount of the investment subsequently increases.

The Company ceases using equity method on the date when associates are not their investments. After that, retained interests in the associates are measured at fair value. The fair value of retained interests and the difference between the gains on disposal and the carrying amount of the investments on the date when the Company ceases using equity method are recognized in profit or loss for the year. The proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to the associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If the investment in an associate becomes the investment in a joint venture, or the investment in a joint venture becomes the investment in an associate, the Company will adopt equity method continuously and will not remeasure the retained interest.

When the Company transacts with an associate, profits and losses resulting from the upstream, downstream and sidestream transactions with the associate are recognized in the Company's parent company only financial statements only to the extent of interests in the associate that are not owned by the Company.

g. Property, plant and equipment

Property, plant and equipment are initially measured at cost less accumulated depreciation and accumulated impairment loss.

The depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If their respective lease terms are shorter than their useful lives, such assets are depreciated over their lease terms. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

h. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

j. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at fair value through other comprehensive income ("FVTOCI").

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 26.

ii. Financial assets at amortized cost

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

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition or 3 to 12 months from the acquisition date, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

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

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

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

- i) Internal or external information show that the debtor is unlikely to pay its creditors.
- ii) Overdue financial assets unless the Company has reasonable and corroborative information to support a more lagged default criterion.

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

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities is held for trading. Financial liabilities held for trading are stated at fair value, and any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses.

Fair value is determined in the manner described in Note 26.

b) Derecognition of financial liabilities

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

k. Provisions

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

l. Revenue recognition

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

Revenue from the sale of goods

Revenue from the sale of goods comes from sales of holographic and optoelectronic products. Sales of products are recognized as revenue when the customer obtains control of the promised assets, that is, the goods are delivered to the customer's specific location and the performance obligation has been satisfied.

The Company does not recognize revenue on processing of materials because this process does not involve a transfer of control.

m. Leasing

2019

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

1) The Company as lessor

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

When the Company subleases a right-of-use asset, the classification of sublease is based on the right-of-use asset (not the underlying asset). However, if the main lease is a short-term lease under the recognition exemption, the sub-lease is classified as an operating lease.

Lease payments from operating leases after deduction of lease incentives are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms in accordance with IAS 17.

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

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments (including fixed payments, substantial fixed payments, variable lease payments based on an index or a rate, the amount the lessee is expected to pay under the residual value guarantee, the exercise price of the purchase option that is reasonably believed to be exercised and the lease termination penalty reflected in the lease period less the current value of lease incentives received). The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

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

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

2018

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

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

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

n. Borrowing costs

The borrowing cost which occurs due to the acquisition of assets is part of the cost of the assets, until the assets are ready for their intended use or to be sold, when all necessary activities are completed.

If the temporary investment for which specific loans are obtained is earned before eligible capital expenditure occurs, the investment income earned shall be subtracted from the borrowing cost eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Other long-term employee benefits

Other long-term employee benefits have the same accounting treatment as retirement benefit plans, but the relevant amount of remeasurement is recognized in profit or loss.

p. Share-based payment arrangements

Share-based payment of interests to employees is measured at fair value of equity instruments at the grant date.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding adjustment in capital reserve - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

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

q. Treasury shares

When the Company buys back issued shares as treasury shares, the cost paid will be debited to the treasury shares and recognized as a decrease in shareholders' equity.

The transfer of treasury shares to employees is performed in accordance with IFRS Bulletin No. 2 "Share-based Payments". When canceling treasury shares, treasury shares is credited, and capital reserve - share premium and share capital are debited in proportion to equity. If the book value of treasury shares is higher than the total value of face value and share premium, the difference will offset the capital reserve generated by treasury shares of the same type, and if there is a shortage, the reserve surplus will be debited. On the contrary, the difference is credited to the capital reserve generated by the similar transactions of treasury shares. The book value of treasury shares is calculated by the weighted average method.

The holding of the Company's shares by its subsidiaries is treated as treasury shares.

r. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws)

that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---------------------------------------|-------------------|-------------------|
| | 2019 | 2018 |
| Cash on hand and revolving funds | \$ 6,663 | \$ 6,992 |
| Checking accounts and demand deposits | 218,487 | 76,408 |
| Cash equivalents | | |
| Time deposits | 58,461 | 31,126 |
| | <u>\$ 283,611</u> | <u>\$ 114,526</u> |

The market rate intervals of cash in bank at the end of the reporting period (interest rate for checking deposits: 0%) were as follows:

| | December 31 | |
|-----------------|--------------|--------------|
| | 2019 | 2018 |
| Demand deposits | 0.001%-0.33% | 0.001%-0.48% |
| Time deposits | 1.86%-2.25% | 3.2% |

The Company's bank deposits had been reclassified to other current assets and other non-current assets for the following purposes:

| | December 31 | |
|--|-----------------|-----------------|
| | 2019 | 2018 |
| Other non-current assets (Note 16) | | |
| Security deposit for leasing of land in Hsinchu Science Park | <u>\$ 5,000</u> | <u>\$ 5,000</u> |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|-------------------------------------|-------------|----------|
| | 2019 | 2018 |
| Non-derivative financial assets | | |
| Fund's beneficiary certificate | \$ 5,296 | \$ 4,995 |
| Financial assets at FVTPL - current | \$ 5,296 | \$ 4,995 |

8. NOTES RECEIVABLE AND TRADE RECEIVABLES

| | December 31 | |
|---|-------------|-----------|
| | 2019 | 2018 |
| <u>Notes receivable</u> | | |
| Gross carrying amount at amortized cost | \$ 3,233 | \$ 2,800 |
| <u>Trade receivables</u> | | |
| Gross carrying amount at amortized cost | \$ 26,206 | \$ 31,542 |
| Less: Allowance for impairment loss | (22) | (22) |
| | \$ 26,184 | \$ 31,520 |
| | December 31 | |
| | 2019 | 2018 |
| <u>Other receivables to related parties (Note 27)</u> | | |
| Gross carrying amount at amortized cost | \$ 82,343 | \$ 88,587 |

The Company's average credit period for the sale of goods was 60-90 days. When deciding the recoverability of trade receivables, the Company considers any changes in the credit quality of the trade receivables from the initial date to the end of the reporting period. The Company will first review the credit rating of customers for new transactions, and obtain full guarantees if necessary to reduce the risk of financial losses due to default. The Company will use other publicly available financial information and historical transaction records to rate major customers. The Company continuously monitors credit risk and the counterparty's credit rating, and manages credit risk by reviewing and approving the counterparty's credit limit. In addition, the Company will review the recoverable amount of each trade receivables on the balance sheet date to ensure that the trade receivables that cannot be recovered have included an appropriate allocation of impairment losses. Accordingly, management of the Company believes that the Company's credit risk has been significantly reduced.

The Company adopts the simplified method of IFRS 9 to recognize the allowance loss of trade receivables based on lifetime expected credit losses. The lifetime expected credit losses are calculated by using the provision matrix, which considers the customer's past default records and current financial conditions. The historical experience of the Company's credit loss shows that there is no significant difference in the loss patterns of the Company's different customer groups. Therefore, the provision matrix does not further distinguish the customer group, and only sets the expected credit loss rate based on the number of days for overdue trade receivables.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables

due. Where recoveries are made, these are recognized in profit or loss.

The aging analysis of trade receivables was as follows:

December 31, 2019

| | <u>Not past due</u> | <u>Below 60 days</u> | <u>61 to 90 days</u> | <u>91 to 180 days</u> | <u>181 to 360 days</u> | <u>More than 361 days</u> | <u>Total</u> |
|--------------------------------|---------------------|--------------------------|----------------------|-----------------------|----------------------------|-------------------------------|-------------------|
| Expected credit loss rate | 0% | 0% | 0~10% | 50% | 70% | 100% | |
| Total carrying amount | \$ 106,094 | \$ 2,336 | \$ 81 | \$ 22 | \$ 12 | \$ 4 | \$ 108,549 |
| Loss allowance (Lifetime ECLs) | - | - | - | (10) | (8) | (4) | (22) |
| Amortized cost | <u>\$ 106,094</u> | <u>\$ 2,336</u> | <u>\$ 81</u> | <u>\$ 12</u> | <u>\$ 4</u> | <u>\$ -</u> | <u>\$ 108,527</u> |

December 31, 2018

| | <u>Not past due</u> | <u>Below 60 days</u> | <u>61 to 90 days</u> | <u>91 to 180 days</u> | <u>181 to 360 days</u> | <u>More than 361 days</u> | <u>Total</u> |
|--------------------------------|---------------------|--------------------------|----------------------|-----------------------|----------------------------|-------------------------------|-------------------|
| Expected credit loss rate | 0% | 0% | 0~10% | 50% | 70% | 100% | |
| Total carrying amount | \$ 115,389 | \$ 4,262 | \$ - | \$ 9 | \$ 12 | \$ 7 | \$ 120,129 |
| Loss allowance (Lifetime ECLs) | - | - | - | (6) | (9) | (7) | (22) |
| Amortized cost | <u>\$ 115,839</u> | <u>\$ 4,262</u> | <u>\$ -</u> | <u>\$ 3</u> | <u>\$ 3</u> | <u>\$ -</u> | <u>\$ 120,107</u> |

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

| | <u>2019</u> | <u>2018</u> |
|---|--------------|--------------|
| Balance at January 1 | \$ 22 | \$ 3,030 |
| Add: Reversal of impairment loss recognized | - | (3,008) |
| Balance at December 31 | <u>\$ 22</u> | <u>\$ 22</u> |

9. INVENTORIES

| | <u>December 31</u> | |
|------------------|--------------------|------------------|
| | <u>2019</u> | <u>2018</u> |
| Finished goods | \$ 12,685 | \$ 16,247 |
| Work in progress | 1,577 | 1,479 |
| Raw materials | 10,555 | 8,978 |
| Merchandise | <u>11,894</u> | <u>7,075</u> |
| | <u>\$ 36,711</u> | <u>\$ 33,779</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$2,070 thousand and \$5,819 thousand, respectively. The cost of goods sold for the years ended December 31, 2019 and 2018 was \$542,114 thousand and \$503,139 thousand, which included inventory write-downs of \$3,748 thousand and \$3,344 thousand, respectively.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity instruments

| | December 31 | |
|--|--------------------|------------------|
| | 2019 | 2018 |
| <u>Non-current</u> | | |
| Domestic investment - unlisted shares | | |
| CM Visual Technology Corporation | \$ 8,520 | \$ 37,050 |
| China Development Biomedical Venture Co., Ltd. | <u>28,161</u> | <u>29,978</u> |
| | <u>\$ 36,681</u> | <u>\$ 67,028</u> |

The Company invests in the common shares of the aforementioned companies for medium and long-term strategic purposes and expects to make profits through long-term investments. Management of the Company believes that if the fluctuations in the short-term fair value of these investments are included in profit or loss, it is inconsistent with the aforementioned long-term investment plan, so it chooses to designate these investments to be measured at fair value through other comprehensive income.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | For the Year Ended December 31 | |
|-----------------------------|---------------------------------------|--------------------|
| | 2019 | 2018 |
| Investments in subsidiaries | \$3,448,795 | \$3,423,822 |
| Investments in associates | <u>110,335</u> | <u>177,471</u> |
| | <u>\$3,559,130</u> | <u>\$3,601,293</u> |

a. Investments in subsidiaries

Subsidiaries of the Company are as follows:

| <u>Name of Investee</u> | <u>Principal Activities</u> | <u>Place of Incorporation and Operation</u> | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|--|--|---|--------------------------|----------|--------------------------|----------|
| | | | <u>Carrying Amount</u> | <u>%</u> | <u>Carrying Amount</u> | <u>%</u> |
| <u>Listed company</u> | | | | | | |
| Optivision Technology Inc. | Production and sale of optical equipment and electronic parts and components | Hsinchu City | \$ 338,096 | 46 | \$ 353,483 | 47 |
| <u>Non-listed company</u> | | | | | | |
| K Laser International Co., Ltd. | Reinvestment | British Virgin Islands | 729,085 | 100 | 714,530 | 100 |
| K Laser China Group Co., Ltd. | Reinvestment | British Virgin Islands | 2,121,930 | 100 | 2,277,418 | 100 |
| iWin Technology Co., Ltd. | Reinvestment | British Virgin Islands | 17,856 | 49 | 18,059 | 49 |
| Insight Medical Solutions Inc. | R&D and sales of gastrointestinal endoscopy and other businesses | Hsinchu City | 241,828 | 44 | - | - |
| Everest Display Inc. | Production and sales of optical instruments and wireless communication machinery and equipment | Hsinchu City | (185,906) | 80 | 60,332 | 79 |
| Add: Transfer of investment loans under the equity method to non-current liabilities | | | <u>185,906</u> | | <u>-</u> | |
| | | | <u>\$ 3,448,795</u> | | <u>\$ 3,423,822</u> | |

The market price information based on the shares closing price of the equity investment of the

over-the-counter company using the equity method on the balance sheet date is as follows:

| | For the Year Ended December 31 | |
|----------------------------|---------------------------------------|-------------------|
| | 2019 | 2018 |
| Optivision Technology Inc. | <u>\$ 409,376</u> | <u>\$ 352,976</u> |

K Laser International Co., Ltd. was established in the British Virgin Island in October 1989 and is a 100% wholly owned subsidiary of the Company. As of December 31, 2019, the Company's cumulative investment amount was approximately US\$19,541 thousand. K Laser International's business projects are mainly investment businesses. The Company indirectly invests in overseas regions such as America and Asia through K Laser International Co., Ltd. It is mainly engaged in the production, sales and investment of holographic products and optical fiber communication related components.

K Laser China Group Co., Ltd. was established in the British Virgin Islands in October 1989 and is a 100% wholly owned subsidiary of the Company. The Company handled surplus remittances in the amounts of RMB17,929 thousand and RMB48,571 thousand in 2019 and 2018, respectively, and processed a capital reduction and return of US\$4,482 thousand in 2019. As of December 31, 2019, the Company had accumulated investments in K Laser China Group of approximately US\$21,289 thousand, and the shareholding ratio was 100%. K Laser China Group's business projects are mainly investment projects. The Company indirectly invested in Wuxi K Laser Technology Co., Ltd., Dongguan K Laser Technology Co., Ltd., Hunan Herui Laser Technology Co., Ltd. and K Laser Technology (HK) Co., Ltd. through K Laser China Group Co., Ltd. It is mainly engaged in the production and sale of laser technology products. The aforementioned indirect investments in China had been approved by the Investment Commission, Ministry of Economic Affairs.

Everest Display Inc. was approved for establishment on July 20, 1990. It is mainly engaged in the production and sale of optical instruments and wireless communication machinery and equipment. The Company successively obtained shares of Everest Display Inc. from third parties in 2019, and as of December 31, 2019, the Company's shareholding ratio was 80%.

Insight Medical Solutions Inc. was originally an associate accounted for using the equity method. The Company participated in the cash capital increase in December 2019. After the capital increase, the Company's shareholding ratio increased to 44% and gained control of Insight Medical Solutions Inc. Therefore, it has been listed as a subsidiary since December 2019.

b. Investments in associates

Associates of the Company are as follows:

| Name of Investee | Principal Activities | Place of Incorporation and Operation | December 31, 2019 | | December 31, 2018 | |
|------------------------------------|--|--------------------------------------|-------------------|----|-------------------|----|
| | | | Carrying Amount | % | Carrying Amount | % |
| Wellcome Co., Ltd. | Manufacture, processing and trading of fluorescent pigments and dyes | Yunlin County | \$ 110,335 | 33 | \$ 105,274 | 33 |
| Chunyao Medical Electric Co., Ltd. | R&D and sales of gastrointestinal endoscopy and other businesses | Hsinchu City | - | - | 72,197 | 34 |
| | | | <u>\$ 110,335</u> | | <u>\$ 177,471</u> | |

Information about the financial statements of associates of the Company is as follows:

| | For the Year Ended December 31 | |
|--------------------------|---------------------------------------|-------------|
| | 2019 | 2018 |
| Total assets | \$ 540,161 | \$ 646,873 |
| Total liabilities | \$ 206,421 | \$ 142,264 |
| | 2019 | 2018 |
| Operating revenue | \$ 136,640 | \$ 128,948 |
| Net profit (loss) | \$ 28,617 | \$ (64,937) |
| Other comprehensive loss | \$ (3,649) | \$ (207) |

The associates' share of the profit and loss by using the equity method and other comprehensive income in 2019 and 2018 are based on the financial statements of associates that have been audited by certified public accountants for the same periods.

Long-term equity investments are accounted for using the equity method and recognized in investment gains and losses, including Wellcome Co., Ltd., K Laser International Co., Ltd.'s reinvestment company Amagic Technologies USA (Dubai), Amagic Holographics India Private Limited and K Laser China Group Holding Group Co., Ltd.'s reinvestment company, K Laser Technology (HK) Co., Ltd.'s financial statements in 2019 and 2018 have not been checked by the Company's accountants, but by other accountants. The amounts of the abovementioned investments accounted for using the equity method were NT\$252,995 thousand and NT\$246,267 thousand on December 31, 2019 and 2018, which represented 5.77% and 5.79% of the total assets, respectively. The amounts of investment gains recognized by the Company were NT\$14,863 thousand and NT\$17,103 thousand, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

| | | For the Year Ended December 31 | | | |
|--|--|--------------------------------|-------------------|--|--|
| | | 2019 | 2018 | | |
| Buildings | | \$ 99,881 | \$ 105,987 | | |
| Machinery and equipment | | 28,427 | 35,703 | | |
| Other equipment | | 28,169 | 40,388 | | |
| Construction in progress and equipment pending further inspections | | 3,396 | 17,088 | | |
| | | <u>\$ 159,873</u> | <u>\$ 199,166</u> | | |
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(Continued)

| | <u>Buildings</u> | <u>Machinery and Equipment</u> | <u>Other Equipment</u> | <u>Construction in Progress and Pending</u> | <u>Total</u> |
|---------------------------------|-------------------|--|----------------------------|---|-------------------|
| <u>Cost</u> | | | | | |
| Balance at January 1, 2019 | \$ 311,832 | \$ 230,238 | \$ 131,507 | \$ 6,198 | \$ 679,775 |
| Additions | 1,247 | 2,467 | 11,615 | 13,692 | 29,021 |
| Disposals | (746) | (4,155) | (2,243) | - | (7,144) |
| Reclassification | 3,823 | (7,946) | 8,898 | (2,802) | 1,973 |
| Balance at December 31, 2018 | <u>\$ 316,156</u> | <u>\$ 220,604</u> | <u>\$ 149,777</u> | <u>\$ 17,088</u> | <u>\$ 703,625</u> |
| <u>Accumulated depreciation</u> | | | | | |
| Balance at January 1, 2018 | \$ 202,749 | \$ 183,939 | \$ 97,180 | \$ - | \$ 483,868 |
| Depreciation expenses | 6,639 | 10,591 | 8,748 | - | 25,978 |
| Disposals | (510) | (4,155) | (2,013) | - | (6,678) |
| Reclassification | 1,291 | 5,474 | 5,474 | - | 1,291 |
| Balance at December 31, 2018 | <u>\$ 210,169</u> | <u>\$ 184,901</u> | <u>\$ 109,389</u> | <u>\$ -</u> | <u>\$ 504,459</u> |
| Net, December 31, 2018 | <u>\$ 105,987</u> | <u>\$ 35,703</u> | <u>\$ 40,388</u> | <u>\$ 17,088</u> | <u>\$ 199,166</u> |

(Concluded)

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

| | |
|---------------------------|-------------|
| Buildings | |
| Housing and constructions | 25-50 years |
| Ancillary equipment | 2-10 years |
| Machinery and equipment | 2-15 years |
| Other equipment | 3-11 years |

The property, plant and equipment of the Company prior to depreciation and the investment properties pledged as collateral for bank borrowings as of December 31, 2019 and 2018, were detailed as follows:

| | <u>For the Year Ended December 31</u> | |
|----------------------------|---------------------------------------|-------------------|
| | <u>2019</u> | <u>2018</u> |
| Housings and constructions | \$ 99,881 | \$ 105,987 |
| Investment properties | 49,908 | 51,552 |
| | <u>\$ 149,789</u> | <u>\$ 157,539</u> |

13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

| | <u>December 31, 2019</u> |
|----------------------------------|---|
| <u>Carrying amounts</u> | |
| Land | \$ 73,292 |
| Buildings | 3,381 |
| Transportation equipment | 3,007 |
| | <u>\$ 79,680</u> |
| | <u>For the Year Ended December 31, 2019</u> |
| Additions to right-of-use assets | <u>\$ 266</u> |

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

Depreciation charge for right-of-use assets

| | |
|--------------------------|-----------------|
| Land | \$ 4,072 |
| Buildings | 821 |
| Transportation equipment | <u>1,835</u> |
| | <u>\$ 6,728</u> |

b. Lease liabilities - 2019

**December 31,
2019**

Carrying amounts

| | |
|-------------|------------------|
| Current | \$ <u>6,227</u> |
| Non-current | <u>\$ 73,993</u> |

Range of discount rate for lease liabilities was as follows:

**December 31,
2019**

| | |
|--------------------------|------|
| Land | 1.4% |
| Buildings | 1.5% |
| Transportation equipment | 1.5% |

c. Other lease information

2019

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

| | |
|---|-----------------|
| Expenses relating to low-value asset leases | <u>\$ 167</u> |
| Total cash outflow for leases | <u>\$ 7,352</u> |

The Company has elected to apply the recognition exemption for certain assets which qualify as short-term leases and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The Company leased a plot of land from management of Hsinchu Science Industrial Park (from October 16, 2018 to December 31, 2037), and the rent paid was adjusted according to the land price set by the government, payment to be paid in the future is as follows:

| Period | Amount |
|-----------------------|-----------------|
| 2019-2037 (each year) | <u>\$ 4,872</u> |

14. INVESTMENT PROPERTIES

| | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|-------------|
| | 2019 | 2018 |
| Investment properties | \$ 49,908 | \$ 51,552 |
| | 2019 | 2018 |
| <u>Cost</u> | | |
| Balance at January 1 | \$ 163,903 | \$ 167,726 |
| Reclassification | - | (3,823) |
| Balance at December 31 | \$ 163,903 | \$ 163,903 |
| <u>Accumulated depreciation</u> | | |
| Balance at January 1 | \$ 112,351 | \$ 111,999 |
| Depreciation expenses | 1,644 | 1,643 |
| Reclassification | - | (1,291) |
| Balance at December 31 | \$ 113,995 | \$ 112,351 |

The above investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

| | |
|----------------------------|----------|
| Housings and constructions | 50 years |
| Ancillary equipment | 10 years |

The investment properties of the Company were valued with reference to appraisal report, the fair value of investment properties was \$129,593 thousand and \$113,118 thousand for the years ended December 31, 2019 and 2018, respectively.

15. OTHER INTANGIBLE ASSETS

| | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|-------------|
| | 2019 | 2018 |
| <u>Carrying amount</u> | | |
| Computer software costs | \$ 3,009 | \$ 3,751 |
| | 2019 | 2018 |
| <u>Cost</u> | | |
| Balance at January 1 | \$ 6,128 | \$ 3,970 |
| Acquisition | - | 588 |
| Disposals | (148) | (280) |
| Reclassification | - | 1,850 |
| Balance at December 31 | \$ 5,980 | \$ 6,128 |
| <u>Accumulated depreciation</u> | | |
| Balance at January 1 | \$ 2,377 | \$ 2,017 |
| Amortization expenses | 742 | 640 |
| Disposals | (148) | (280) |
| Balance at December 31 | \$ 2,971 | \$ 2,377 |

The intangible assets with limited life mentioned above are amortized on a straight-line basis over 3 to 5 years.

16. OTHER ASSETS

| | December 31 | |
|-------------------------------|--------------------|------------------|
| | 2019 | 2018 |
| Refundable deposits | \$ 15,769 | \$ 15,305 |
| Prepaid expenses and payments | 3,605 | 4,559 |
| Restricted assets (Note 6) | 5,000 | 5,000 |
| Others | <u>2,713</u> | <u>2,374</u> |
| | <u>\$ 27,087</u> | <u>\$ 27,238</u> |
| Current | \$ 4,647 | \$ 5,267 |
| Non-current | <u>22,440</u> | <u>21,971</u> |
| | <u>\$ 27,087</u> | <u>\$ 27,238</u> |

17. BORROWINGS

a. Short-term borrowings

| | December 31, 2019 | | December 31, 2018 | |
|-----------------|-----------------------------|----------------------|-----------------------------|----------------------|
| | <u>Interest rate</u> | <u>Amount</u> | <u>Interest rate</u> | <u>Amount</u> |
| Lines of credit | 0.95%-1% | <u>\$ 234,000</u> | 0.95%-1% | <u>\$ 295,000</u> |

The Company's lines of credit from banks on December 31, 2019 and 2018 were guaranteed by the chairman of the Company, Mr. Kuo Wei-Wu, as the joint guarantor.

b. Short-term bills payable

| | December 31 | |
|---|--------------------|------------------|
| | 2019 | 2018 |
| Commercial paper | \$ 150,000 | \$ 100,000 |
| Less: Discounts on short-term bills payable | <u>(34)</u> | <u>(40)</u> |
| | <u>\$ 149,966</u> | <u>\$ 99,960</u> |

Outstanding short-term bills payable were as follows:

| <u>December 31, 2019</u> | | | | |
|---------------------------------|-----------------------|------------------------|------------------------|----------------------|
| Promissory Institution | Nominal Amount | Discount Amount | Carrying Amount | Interest Rate |
| Taiwan Bills | \$ 50,000 | \$ 12 | \$ 49,988 | 0.988% |
| ChungHwa Bills | 50,000 | 6 | 49,994 | 0.978% |
| DahChung Bills | <u>50,000</u> | <u>16</u> | <u>49,984</u> | 0.978% |
| | <u>\$ 150,000</u> | <u>\$ 34</u> | <u>\$ 149,966</u> | |

December 31, 2018

| Promissory Institution | Nominal Amount | Discount Amount | Carrying Amount | Interest Rate |
|------------------------|-------------------|-----------------|------------------|---------------|
| Mega Bills | \$ 50,000 | \$ 24 | \$ 49,976 | 0.958% |
| DahChung Bills | 50,000 | 16 | 49,984 | 0.988% |
| | <u>\$ 100,000</u> | <u>\$ 40</u> | <u>\$ 99,960</u> | |

c. Current portion of long-term liabilities

| | <u>December 31</u> | |
|------------------------------------|--------------------|-------------|
| | <u>2019</u> | <u>2018</u> |
| Current portion of long-term loans | \$ - | \$ 54,000 |

d. Long-term borrowings

| | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|---|--------------------------|---------------|--------------------------|---------------|
| | <u>Interest Rate %</u> | <u>Amount</u> | <u>Interest Rate %</u> | <u>Amount</u> |
| <u>Secured borrowings</u> | | | | |
| E. Sun Bank and Taipei Fubon Bank (lead banks of syndicated loan) | | | | |
| Mortgage loan from 2017/9 to 2020/9, repayment of principal from September 2019, to be repaid once every 6 months, non- revolving basis. It was fully paid off in December 2019. | - | \$ - | 1.79 | \$ 360,000 |
| E. Sun Bank and Taipei Fubon Bank (lead banks of syndicated loan) | | | | |
| Mortgage loan from 2017/9 to 2020/9, interest is paid on a quarterly basis and the principal is repaid in a one-off payment at maturity. It was fully paid off in December 2019. | - | - | 0.75 | 360,000 |
| Taipei Fubon Bank (lead bank of syndicated loan) | | | | |
| Mortgage loan from 2019/12 to 2022/12, interest is paid monthly. It needs to be revolved over several periods, but each revolving period must not exceed 6 months. | 1.79 | 360,000 | - | - |
| Taipei Fubon Bank (lead bank of syndicated loan) | | | | |
| Mortgage loan from 2019/12 to 2022/12, interest is paid monthly. It needs to be revolved over several periods, but each revolving period must not exceed 6 months. | 0.79 | 360,000 | - | - |
| <u>Unsecured borrowings</u> | | | | |
| JihSun Bank | | | | |
| Line of credit from 2018/11 to 2020/11, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was extended by 2 years from November 2019, maturity date is in November 2021. | 1.35 | 50,000 | 1.38 | 50,000 |

(Continued)

| | December 31, 2019 | | December 31, 2018 | |
|--|-------------------|---------------------|-------------------|-------------------|
| | Interest Rate % | Amount | Interest Rate % | Amount |
| KGI Bank | | | | |
| Line of credit from 2019/11 to 2021/11, interest is paid monthly, the principal is repaid in a one-off payment at maturity. | 1.15 | 100,000 | - | - |
| Taipei Fubon Bank | | | | |
| Line of credit from 2018/7 to 2020/5, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was extended by 2 years from May 2019, maturity date is in May 2021. | 1.24 | \$ 100,000 | 1.23 | \$ 100,000 |
| CTBC Bank | | | | |
| Line of credit from 2019/2 to 2020/10, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was extended by 2 years from August 2019, maturity date is in August 2021. | 1.35 | 50,000 | - | - |
| CTBC Bank | | | | |
| Line of credit from 2018/10 to 2020/10, interest is paid monthly, the principal is repaid in a one-off payment at maturity. It was fully paid off in January 2019. | - | - | 1.39 | 100,000 |
| Yuanta Bank | | | | |
| Line of credit from 2019/3 to 2021/3, interest is paid monthly, the principal is repaid in a one-off payment at maturity. | 1.30 | 100,000 | - | - |
| Yuanta Bank | | | | |
| Line of credit from 2018/3 to 2020/3, interest is paid monthly, the principal is repaid gradually upon maturity. It was fully paid off in January 2019. | - | - | 1.40 | 50,000 |
| Less: Current portion of long-term borrowings | | - | | (54,000) |
| | | <u>\$ 1,120,000</u> | | <u>\$ 966,000</u> |
| | | | | (Concluded) |

- 1) To acquire sufficient working capital and repay its debts, the Company signed a syndicated loan agreement with nine financial institutions on September 9, 2017, which was led by E. Sun Bank and Taipei Fubon Bank. The total amount of joint credit line was NT\$1,000,000 thousand. As of December 31, 2018, the actual amount transferred was NT\$720,000 thousand and loan balance was NT\$720,000 thousand. The syndicated loan was repaid in advance in December 2019.

According to the restrictions of syndicated loan agreement, the annual financial statements of the Company should maintain the following financial ratios until the Company has repaid full amount of debt under the agreement:

- (1) Current ratio (i.e. ratio of current assets to current liabilities) shall not be less than 100%.
 - (2) Debt ratio (i.e. ratio of total liabilities less cash and cash equivalents to tangible net worth) shall not be over 100%.
 - (3) Times interest earned ratio (i.e. sum of income before income tax, interest expenses, depreciation and amortization divided by interest expenses) shall not be less than 300%.
 - (4) Tangible net worth shall not be less than NT\$2,600,000 thousand.
- 2) To acquire sufficient working capital and repay its debts, the Company signed a syndicated loan agreement with nine financial institutions in November 2019, which was led by Taipei Fubon Bank.

The total amount of joint credit line was NT\$800,000 thousand. As of December 31, 2018, the actual amount transferred was NT\$720,000 thousand and loan balance was NT\$720,000 thousand.

According to the restrictions of syndicated loan agreement, the annual financial statements of the Company should maintain the following financial ratios until the Company has repaid full amount of debt under the agreement:

- (1) Current ratio (i.e. ratio of current assets to current liabilities) shall not be less than 100%.
 - (2) Debt ratio (i.e. ratio of total liabilities less cash and cash equivalents to tangible net worth) shall not be over 100%.
 - (3) Times interest earned ratio (i.e. sum of income before income tax, interest expenses, depreciation and amortization divided by interest expenses) shall not be less than 300%.
 - (4) Tangible net worth shall not be less than NT\$2,600,000 thousand.
- 3) The abovementioned long-term loans were guaranteed jointly by Mr. Kuo Wei-Wu, chairman of the Company. The syndicated loan of E. Sun Bank and Taipei Fubon Bank was secured by property, plant and equipment and investment properties.

18. OTHER PAYABLES

| | For the Year Ended December 31 | |
|---|---------------------------------------|------------------|
| | 2019 | 2018 |
| <u>Other payables</u> | | |
| Salaries payable | \$ 14,566 | \$ 13,385 |
| Processing fees payable | 2,719 | 3,670 |
| Interest payables | 242 | 280 |
| Payables for employees' and directors' compensation | - | 8,200 |
| Payables for equipment purchase | 668 | 4,537 |
| Others | 34,710 | 24,273 |
| | <u>\$ 52,905</u> | <u>\$ 54,345</u> |

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

According to the aforementioned regulations, the Company recognized \$4,839 thousand and \$3,948 thousand as expenses in statements of comprehensive income for the years ended December 31, 2019 and 2018, respectively.

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension

fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans are as follows:

| | December 31 | |
|---|--------------------|------------------|
| | 2019 | 2018 |
| Present value of defined benefit obligation | \$ 49,662 | \$ 44,878 |
| Fair value of plan assets | <u>(24,164)</u> | <u>(22,516)</u> |
| Net defined benefit liabilities | <u>\$ 25,498</u> | <u>\$ 22,362</u> |

Movements in net defined benefit liabilities (assets) were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities (Assets) |
|--|--|--|---|
| Balance at January 1, 2018 | <u>\$ 41,887</u> | <u>\$ (21,005)</u> | <u>\$ 20,882</u> |
| Service cost | | | |
| Current service cost | 285 | - | 285 |
| Past service cost | 1,432 | - | 1,432 |
| Net interest expense (income) | <u>471</u> | <u>(240)</u> | <u>231</u> |
| Recognized in profit or loss | <u>2,188</u> | <u>(240)</u> | <u>1,948</u> |
| Remeasurement | | | |
| Return on plan assets | - | (631) | (631) |
| Actuarial loss - changes in demographic assumptions | 560 | - | 560 |
| Actuarial loss - changes in financial assumptions | 477 | - | 477 |
| Actuarial loss - experience adjustments | <u>466</u> | <u>-</u> | <u>466</u> |
| Recognized in other comprehensive income | <u>1,503</u> | <u>(631)</u> | <u>872</u> |
| Contributions from employer | - | (640) | (640) |
| Others | <u>(700)</u> | <u>-</u> | <u>(700)</u> |
| Balance at December 31, 2018 | <u>\$ 44,878</u> | <u>\$ (22,516)</u> | <u>\$ 22,362</u> |

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities (Assets) |
|-------------------------------|--|--|---|
| Service cost | | | |
| Current service cost | \$ 344 | \$ - | \$ 344 |
| Past service cost | - | - | - |
| Net interest expense (income) | <u>444</u> | <u>(224)</u> | <u>220</u> |
| Recognized in profit or loss | <u>788</u> | <u>(224)</u> | <u>564</u> |
| Remeasurement | | | |
| Return on plan assets | - | (788) | (788) |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities (Assets) |
|---|--|--|---|
| Actuarial loss - changes in demographic assumptions | \$ 729 | \$ - | \$ 729 |
| Actuarial loss - changes in financial assumptions | 949 | - | 949 |
| Actuarial loss - experience adjustments | <u>3,338</u> | <u>-</u> | <u>3,338</u> |
| Recognized in other comprehensive income | <u>5,016</u> | <u>(788)</u> | <u>4,228</u> |
| Contributions from employer | - | (636) | (636) |
| Others | <u>(1,020)</u> | <u>-</u> | <u>(1,020)</u> |
| Balance at December 31, 2019 | <u>\$ 49,662</u> | <u>\$ (24,164)</u> | <u>\$ 25,498</u> (Concluded) |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

| | 2019 | 2018 |
|-------------------------------------|---------------|-----------------|
| Operating costs | \$ 198 | \$ 173 |
| Selling and marketing expenses | 69 | 58 |
| General and administrative expenses | 223 | 1,640 |
| Research and development expenses | <u>74</u> | <u>77</u> |
| | <u>\$ 564</u> | <u>\$ 1,948</u> |

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

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

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

| | December 31 | |
|-------------------------------------|--------------------|-------------|
| | 2019 | 2018 |
| Discount rate(s) | 0.75% | 1.00% |
| Expected rate(s) of salary increase | 2.00% | 2.00% |

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

| | December 31 | |
|-------------------------------------|--------------------|-------------|
| | 2019 | 2018 |
| Discount rate(s) | | |
| 0.25% increase | \$ (965) | \$ (959) |
| 0.25% decrease | \$ 1,002 | \$ 996 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | \$ 972 | \$ 968 |
| 0.25% decrease | \$ (941) | \$ (938) |

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

| | December 31 | |
|--|--------------------|-------------|
| | 2019 | 2018 |
| Expected contributions to the plans for next year | \$ 676 | \$ 564 |
| Average duration of the defined benefit obligation | 9.46 years | 10.17 years |

20. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|--------------------|--------------|
| | 2019 | 2018 |
| Number of shares authorized (in thousands) | 200,000 | 200,000 |
| Shares authorized | \$ 2,000,000 | \$ 2,000,000 |
| Number of shares issued and fully paid (in thousands) | 159,325 | 159,325 |
| Shares issued | \$ 1,593,246 | \$ 1,593,246 |

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

The Company's outstanding ordinary shares are adjusted as follows:

| | Number of Shares (In thousands) | Share Capital |
|---------------------------------------|--|----------------------|
| Balance at January 1, 2018 | 165,325 | \$ 1,653,246 |
| Less: Cancellation of treasury shares | (6,000) | (60,000) |
| Balance at December 31, 2018 | 159,325 | \$ 1,593,246 |

| | Number of Shares (In thousands) | Share Capital |
|---------------------------------------|--|----------------------|
| Balance at January 1, 2019 | 159,325 | \$ 1,593,246 |
| Less: Cancellation of treasury shares | - | - |
| Balance at December 31, 2019 | <u>159,325</u> | <u>\$ 1,593,246</u> |

b. Capital surplus

The balance of various types of capital surplus in 2019 and 2018 is as follows:

| | December 31 | |
|---|--------------------|-------------------|
| | 2019 | 2018 |
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u> | | |
| Ordinary shares premium | \$ 454,275 | \$ 454,275 |
| Treasure shares transactions | 14,901 | - |
| The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | 46,220 | 46,009 |
| <u>May only be used to offset a deficit (2)</u> | | |
| Changes in percentage of ownership interests in subsidiaries | 29,976 | 29,678 |
| <u>May not be used for any purpose</u> | | |
| Employee share options | <u>6,159</u> | <u>-</u> |
| | <u>\$ 551,531</u> | <u>\$ 529,962</u> |

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

c. Retained earnings and dividend policy

The shareholders of the Company held their regular meeting on May 31, 2019 and in that meeting, resolved the amendments to the Company's Articles of Incorporation (the "Articles"). The amendments explicitly stipulate that the proposal for profit distribution or offsetting of losses should be made at the end of each quarter. The board of directors is authorized to adopt a special resolution to distribute dividends and bonuses in cash and a report of such distribution should be submitted in the shareholders' meeting.

Under the dividends policy as set forth in the Articles after the amendments, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a special reserve for employees' compensation, setting aside as legal reserve 10% of the remaining profit (not limited to when the statutory accumulated surplus has reached the Company's total capital), setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings in each quarter are

accumulated as profit available for distribution, which shall be used by the Company's board of directors as the basis for proposing a distribution plan. The aforementioned profit shall be distributed through the issuance of new shares in cash, subject to the resolution of the board of directors which requires over two-thirds of attending directors for authorization and more than half of attending directors for approval, and a report of such distribution should be submitted in the shareholders' meeting.

Under the dividends policy as set forth in the Articles before the amendments, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendments, refer to Note 21.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2019 and 2018 were approved in the shareholders' regular meetings on June 31, 2019 and May 30, 2018, respectively, were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|-----------------|----------------------------------|-------------|-----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Legal reserve | \$ 6,583 | \$ 15,502 | \$ - | \$ - |
| Special reserve | 38,226 | - | - | - |
| Cash dividends | 62,043 | 91,462 | 0.41 | 0.56 |

The appropriation of earnings for 2019 was not proposed by the Company's board of directors on March 30, 2020 due to loss.

The profit distribution plan for 2019 is subject to the resolution of the shareholders' meeting to be held on May 28, 2020.

d. Other equity items

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

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Balance at January 1 | \$ (195,571) | \$ (177,585) |
| Recognized for the year | | |
| Exchange differences on translating the financial statements of foreign operations | (82,979) | (17,986) |
| Disposal of partial interests in subsidiaries | 78 | - |
| Balance at December 31 | <u>\$ (278,472)</u> | <u>\$ (195,571)</u> |

The exchange differences arising on translation of foreign operation's net assets from its functional

currency to the Company's presentation currency (i.e. the New Taiwan Dollar) are recognized directly in other comprehensive income and also accumulated in the exchange differences on translation of foreign financial statements. Such amount accumulated in the exchange differences on translation of foreign financial statements will be reclassified to profit or loss when the foreign operation is disposed of.

2) Unrealized valuation gain (loss) on financial assets at FVTOCI

| | 2019 | 2018 |
|--|---------------------------|--------------------------|
| Balance at January 1 | \$ (5,574) | \$ 18,107 |
| Unrealized loss - equity instruments | (30,347) | 7,923 |
| Share of other comprehensive income (loss) of associates accounted for using the equity method | 2,657 | (31,604) |
| Disposal of partial interests in subsidiaries | <u>231</u> | <u>-</u> |
| Balance at December 31 | <u><u>\$ (33,033)</u></u> | <u><u>\$ (5,574)</u></u> |

The equity instruments measured at fair value through other comprehensive income are measured at fair value. Subsequent changes in fair value are recognized in other comprehensive income and accumulated in other equity. At the time of disposal, the accumulated profit or loss is transferred directly to retained earnings and is not reclassified as profit or loss.

e. Treasury shares

1) Movements of treasury shares are as follows:

| 2019 | | | | |
|---|---|-------------------------|---------------------------|--|
| Purpose of Buy-back | Beginning Number of Shares | Additions | Deductions | Ending Number of Shares |
| Transferred to employees | 6,714,000 | 1,286,000 | (2,000,000) | 6,000,000 |
| The Company's shares held by subsidiaries | <u>-</u> | <u>2,750,000</u> | <u>-</u> | <u>2,750,000</u> |
| | <u><u>6,714,000</u></u> | <u><u>4,036,000</u></u> | <u><u>(2,000,000)</u></u> | <u><u>8,750,000</u></u> |

| 2018 | | | | |
|---|---|--------------------------|---------------------------|--|
| Purpose of Buy-back | Beginning Number of Shares | Additions | Deductions | Ending Number of Shares |
| Transferred to employees | 2,000,000 | 4,714,000 | - | 6,714,000 |
| Maintained the Company's creditability and shareholders' rights | <u>-</u> | <u>6,000,000</u> | <u>(6,000,000)</u> | <u>-</u> |
| | <u><u>2,000,000</u></u> | <u><u>10,714,000</u></u> | <u><u>(6,000,000)</u></u> | <u><u>6,714,000</u></u> |

2) The Company gained control over Insight Medical Solutions Inc. on December 23, 2019. At the time of acquisition, Insight Medical Solutions Inc. held shares of the Company, detailed information is as follows:

| Name of Subsidiary | Number of Shares Held | Amount Transferred to Treasury Shares | Price per Share at December 31, 2019 |
|--------------------------------|----------------------------------|--|---|
| Insight Medical Solutions Inc. | <u>2,750,000</u> | <u>\$ 22,785</u> | <u>\$ 19.1</u> |

The transferred amount of shares held by Insight Medical Solutions Inc. had been adjusted according to the Company's shareholding ratio.

- 3) According to Article 28-2 of the Securities and Exchange Act, the number of shares bought back by a company shall not exceed 10% of the total number of shares issued by the Company, and the total amount paid to purchase the shares shall not exceed the sum of retained earnings plus share premium and realized capital surplus. According to the Securities and Exchange Act, treasury shares held by the Company shall neither pledge nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote. Subsidiaries holding shares of the Company are treated as treasury shares, except the rights to participate in any share issuance for cash and to vote, the rest are the same as general shareholders' rights.

21. NET PROFIT FROM CONTINUING OPERATIONS

- a. Employee benefits expense, depreciation and amortization expense

| 2019 | | | | |
|--|-----------------------|------------------------------|---|-------------------|
| | Operating Cost | Operating Expense | Non-operating Expense and Loss | Total |
| Short-term employee benefits | <u>\$ 34,536</u> | <u>\$ 76,090</u> | <u>\$ -</u> | <u>\$ 110,625</u> |
| Retirement benefits | <u>\$ 1,811</u> | <u>\$ 3,592</u> | <u>\$ -</u> | <u>\$ 5,403</u> |
| Other employee benefits | <u>\$ 494</u> | <u>\$ 509</u> | <u>\$ -</u> | <u>\$ 1,003</u> |
| Depreciation expense | | | | |
| Depreciation of property, plant and equipment | \$ 12,939 | \$ 11,392 | \$ 1,403 | \$ 25,735 |
| Depreciation of right-of-use assets | 1,423 | 3,451 | 1,854 | 6,728 |
| Depreciation of investment property | - | - | 1,644 | 1,644 |
| | <u>\$ 14,362</u> | <u>\$ 14,843</u> | <u>\$ 4,901</u> | <u>\$ 34,107</u> |
| Amortization expense | <u>\$ -</u> | <u>\$ 742</u> | <u>\$ -</u> | <u>\$ 742</u> |
| 2018 | | | | |
| | Operating Cost | Operating Expense | Non-operating Expense and Loss | Total |
| Short-term employee benefits | <u>\$ 32,920</u> | <u>\$ 58,240</u> | <u>\$ -</u> | <u>\$ 88,566</u> |
| Retirement benefits | <u>\$ 1,747</u> | <u>\$ 4,149</u> | <u>\$ -</u> | <u>\$ 5,896</u> |
| Other employee benefits | <u>\$ 475</u> | <u>\$ 468</u> | <u>\$ -</u> | <u>\$ 943</u> |
| Depreciation expense | | | | |
| Depreciation of property, plant and equipment | \$ 13,749 | \$ 11,603 | \$ 626 | \$ 25,978 |
| Depreciation of investment property | - | - | 1,643 | 1,643 |
| | <u>\$ 13,749</u> | <u>\$ 11,603</u> | <u>\$ 2,269</u> | <u>\$ 27,621</u> |
| Amortization expense | <u>\$ -</u> | <u>\$ 640</u> | <u>\$ -</u> | <u>\$ 640</u> |

According to the amended Company's Articles in May 2015 and approved in the shareholders' meeting on May 27, 2016, the Company accrued employees' compensation at rates of no less than 4% and no higher than 8%, and remuneration of directors at rates no higher than 2% of net profit before income tax, employees' compensation and remuneration of directors. Due to loss, the employees' compensation

and the remuneration of directors in 2019 were not accrued. The employees' compensation and the remuneration of directors for the year ended December 31, 2018, which have been approved by the Company's board of directors on March 26, 2019 were as follows:

| | <u>2018</u> | |
|---------------------------|-------------|----|
| <u>Estimated ratio</u> | | |
| Employees' compensation | | 8% |
| Remuneration of directors | | 2% |

| | <u>2018</u> | |
|---------------------------|-------------|---------------|
| | <u>Cash</u> | <u>Shares</u> |
| <u>Amount</u> | | |
| Employees' compensation | \$ 6,560 | \$ - |
| Remuneration of directors | 1,640 | - |

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

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

22. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense (benefit) are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-----------------|-----------------|
| Current tax | | |
| In respect of the current year | \$ - | \$ - |
| Income tax on unappropriated earnings | - | 4,766 |
| Adjustments for prior years | 546 | 200 |
| Deferred tax | | |
| In respect of the current year | 1,500 | 6,900 |
| Adjustments to deferred tax attributable to changes in tax rates | - | (3,900) |
| Income tax expense recognized in profit or loss | <u>\$ 2,046</u> | <u>\$ 7,966</u> |

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

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|------------------|
| (Loss) profit before tax from continuing operations | <u>\$ (117,789)</u> | <u>\$ 73,795</u> |
| | | (Continued) |

| | 2019 | 2018 |
|--|-----------------|-----------------|
| Income tax expense (benefit) calculated at the statutory rate | \$ (24,400) | \$ 14,600 |
| Investment gain under the equity method | 21,000 | (11,300) |
| Dividends income from foreign investments | 15,800 | 45,400 |
| Gain on disposal of domestic equity investments | (9,100) | (3,400) |
| Deferred income tax assets not recognized in previous year but applied in current year | (2,700) | (45,900) |
| Others | 900 | 3,600 |
| Increase in undistributed surplus | - | 4,766 |
| Adjustments for prior years' income tax | 546 | 200 |
| Income tax expense recognized in profit or loss | <u>\$ 2,046</u> | <u>\$ 7,966</u> |

(Concluded)

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

b. Current tax assets and liabilities

| | December 31 | |
|-------------------------|--------------------|-----------------|
| | 2019 | 2018 |
| Current tax assets | | |
| Tax refund receivable | \$ <u>137</u> | \$ <u>-</u> |
| Current tax liabilities | | |
| Income tax payable | \$ <u>-</u> | \$ <u>4,958</u> |

c. Deferred tax assets and liabilities

| | For the Year Ended December 31 | |
|-------------------------------|---------------------------------------|------------------|
| | 2019 | 2018 |
| <u>Deferred tax assets</u> | | |
| Temporary differences | | |
| Unrealized gross profit | \$ 400 | \$ 2,600 |
| Allowance for bad debt losses | 2,700 | 2,100 |
| Others | 400 | 1,300 |
| Loss carryforwards | <u>14,300</u> | <u>13,300</u> |
| Deferred income tax assets | <u>\$ 17,800</u> | <u>\$ 19,300</u> |

d. As of December 31, 2019, information on unused loss carryforwards was as follows:

| Unused Carryforwards | Loss Carryforwards |
|-----------------------------|---------------------------|
| \$ 96,107 | Due in 2022 |
| 4,634 | Due in 2023 |
| <u>2,620</u> | Due in 2026 |
| <u>\$ 95,617</u> | |

e. Income tax assessments

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

23. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share of the Company in 2019 and 2018 are calculated as follows:

| | 2019 | | | 2018 | | |
|--|--------------|---------------|-----------|-------------|---------------|-----------|
| | Amount | Number of | Loss per | Amount | Number of | Earnings |
| | (Numerator) | Shares in | Share | (Numerator) | Shares in | per Share |
| | After Tax | Thousands | (NT\$) | After Tax | Thousands | (NT\$) |
| | | (Denominator) | | | (Denominator) | |
| Basic earnings (loss) per share | | | | | | |
| Earnings (loss) available to shareholders of common shares | \$ (119,835) | 152,102 | \$ (0.79) | \$ 65,829 | 161,450 | \$ 0.41 |
| Effect of dilutive potential common shares | | | | | | |
| Convertible bonds | | | | - | - | |
| Bonus to employees | | | | - | 755 | |
| Diluted earnings per share | | | | | | |
| Earnings available to shareholders of common shares | | | | \$ 65,829 | 162,205 | \$ 0.41 |

If the Company offered to settle the compensation or bonuses paid to employees in cash or shares, the Company assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

24. SHARE-BASED PAYMENT ARRANGEMENTS

In August 2019 and December 2019, the Company transferred 2,000 thousand shares and 2,905 thousand shares of treasury stock to employees at \$16 and \$17 per share, respectively. Target employees included employees of the Company and its subsidiaries who met certain conditions. However, the delivery date of 2,905 thousand shares was in January 2020.

Treasury shares granted in August 2019 and December 2019 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | August 2019 | December 2019 |
|--------------------------|-------------|---------------|
| Grant-date share price | \$23.10 | \$19.05 |
| Exercise price | \$16.00 | \$17.00 |
| Expected volatility | 37.47% | 43.21% |
| Expected life (in years) | 0 | 0 |
| Risk-free interest rate | 0.43% | 0.49% |

Compensation cost recognized was \$20,359 thousand for the year ended December 31, 2019.

25. CAPITAL RISK MANAGEMENT

The capital risk management of Company is to ensure that it has the necessary financial resources and operational plans to meet the needs of working capital, capital expenditures, research and development expenses, debt repayments and dividend payouts in the next 12 months.

26. FINANCIAL INSTRUMENTS

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

The Company's management believes that the carrying amount of financial assets and financial liabilities recognized in the financial statements which are not measured at fair value approximates their fair value.

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

1) Fair value hierarchy

December 31, 2019

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------|---------|-----------|-----------|
| Financial assets at FVTPL | \$ 5,296 | \$ - | \$ - | \$ 5,296 |
| Financial assets at FVTOCI Equity instruments | | | | |
| Domestic unlisted shares | \$ - | \$ - | \$ 36,681 | \$ 36,681 |

December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------|---------|-----------|-----------|
| Financial assets at FVTPL | \$ 4,995 | \$ - | \$ - | \$ 4,995 |
| Financial assets at FVTOCI Equity instruments | | | | |
| Domestic unlisted shares | \$ - | \$ - | \$ 67,028 | \$ 67,028 |

2) There were no transfers between Levels 1 and 2 in 2019 and 2018.

3) No adjustment shall be made to financial assets that applied Level 3 fair value changes other than those recognized in other comprehensive income.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

| Financial Instruments | Valuation Techniques and Inputs |
|--|---|
| Domestic and foreign unlisted equity investments | Market approach. Fair market value are estimated based on observable companies at the end of the reporting period, and adjusted by the P/E ratio and market price/net worth ratio of invested company. |

c. Categories of financial instruments

| | <u>December 31</u> | |
|---|--------------------|------------|
| | 2019 | 2018 |
| <u>Financial assets</u> | | |
| Measured at amortized cost | | |
| Cash and cash equivalents | \$ 283,611 | \$ 114,526 |
| Notes and trade receivables (including related parties) | 111,760 | 122,907 |

(Continued)

| | December 31 | |
|---|--------------------|-------------|
| | 2019 | 2018 |
| Other receivables | \$ 13,444 | \$ 9,503 |
| Refundable deposits | 15,769 | 15,305 |
| Restricted assets | 5,000 | 5,000 |
| Financial assets at FVTPL - current | 5,296 | 4,995 |
| Financial assets at FVTOCI - non-current | 36,681 | 67,028 |
| Financial liabilities | | |
| Measured at amortized cost | | |
| Short-term borrowings | 234,000 | 295,000 |
| Short-term notes payable | 149,966 | 99,960 |
| Notes and trade payables (including related parties) | 80,598 | 68,968 |
| Other payables | 52,905 | 54,345 |
| Long-term borrowings (including current portion) | 1,120,000 | 1,020,000 |
| Guarantee deposits (listed as other non-current liabilities - others) | 942 | 942 |
| | | (Concluded) |

d. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, trade receivables, other receivables, refundable deposits, trade payables, short-term notes payable, other payables and borrowings. The Company's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

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

a) Foreign currency risk

As many of the Company's subsidiaries have foreign currency denominated transactions, the Company is exposed to risk of fluctuation in exchange rates. The Company's risk management policy on foreign exchange rate fluctuations is within the allowed standard scope, and utilizes derivative - foreign currency forward contracts to manage risks.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 30.

The sensitivity analysis of the Company included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number indicates an increase in pre-tax profit and other equity associated with the functional currency strengthening 1% against the relevant foreign currency. For a 1% weakening of the functional currency against the relevant foreign currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances would be negative.

| | USD Impact | |
|----------------|------------|----------|
| | 2019 | 2018 |
| Profit or loss | \$ 1,533 | \$ 1,359 |

b) Interest rate risk

The interest rate risk of the Company mainly comes from both floating-rate fixed deposits and loans.

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

| | December 31 | |
|------------------------------|-------------|---------|
| | 2019 | 2018 |
| Cash flow interest rate risk | | |
| Financial assets | \$ - | \$ - |
| Financial liabilities | 1,120,000 | 870,000 |

The sensitivity analysis was determined based on the calculation of changes in the fair value of financial assets and liabilities at the end of the reporting period. If interest rates had been 1% higher and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2019 and 2018 would increase by \$11,200 thousand and \$8,700 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company mostly requires its major trading partners to provide collaterals or other rights as a guarantee to effectively reduce the credit risk. Management of the Company has assigned a dedicated team responsible for the decision the credit limit, credit approval and other monitoring procedures to ensure that appropriate actions have been taken for the recovery of overdue receivables. In addition, the Company will review each of the recoverable amount of the receivables on the balance sheet date to ensure that uncollectible receivables have been recognized as impairment loss. Therefore, management of the Company believes that the credit risk has been significantly reduced.

3) Liquidity risk

The Company has sufficient working capital to meet its present obligations. Therefore, there is no liquidity risk arising from inability to raise funds in meeting contractual obligations.

a) The following table details the Company's expected maturities for some of its non-derivative financial liabilities

| | December 31, 2019 | | | |
|--------------------------------------|-------------------|-----------|-------------------|------------|
| | Less than 1 Year | 2-3 Years | More than 3 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing liabilities | \$ 133,503 | \$ - | \$ - | \$ 133,503 |
| Lease liabilities | 7,315 | 6,792 | 75,990 | 90,097 |

(Continued)

| December 31, 2019 | | | | |
|--------------------------------------|---------------------|---------------------|----------------------|---------------------|
| | Less than 1 Year | 2-3 Years | More than 3 Years | Total |
| Floating interest rate liabilities | \$ - | \$ 1,120,000 | \$ - | \$ 1,120,000 |
| Fixed interest rate liabilities | <u>383,966</u> | <u>-</u> | <u>-</u> | <u>383,966</u> |
| | <u>\$ 524,784</u> | <u>\$ 1,126,792</u> | <u>\$ -</u> | <u>\$ 1,727,566</u> |
| December 31, 2018 | | | | |
| | Less than 1 Year | 2-3 Years | More than 3 Years | Total |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing liabilities | \$ 123,313 | \$ - | \$ - | \$ 123,313 |
| Floating interest rate liabilities | 54,000 | 816,000 | - | 870,000 |
| Fixed interest rate liabilities | <u>394,960</u> | <u>150,000</u> | <u>-</u> | <u>544,960</u> |
| | <u>\$ 572,273</u> | <u>\$ 966,000</u> | <u>\$ -</u> | <u>\$ 1,538,273</u> |
| | | | | (Concluded) |

b) Financing facilities

| December 31 | | |
|-------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Unsecured bank overdraft facilities | | |
| Amount used | \$ 634,000 | \$ 695,000 |
| Amount unused | <u>714,960</u> | <u>885,430</u> |
| | <u>\$ 1,348,960</u> | <u>\$ 1,580,430</u> |
| Secured bank overdraft facilities | | |
| Amount used | \$ 720,000 | \$ 720,000 |
| Amount unused | <u>80,000</u> | <u>280,000</u> |
| | <u>\$ 800,000</u> | <u>\$ 1,000,000</u> |

27. TRANSACTIONS WITH RELATED PARTIES

The transactions between the Company and other related parties are as follows:

a. Related party name and category

| Related Party Name | Related Party Category |
|--|------------------------|
| K Laser International Co., Ltd. (International) | Subsidiaries |
| K Laser China Group Co., Ltd. (China Group) | Subsidiaries |
| Optivision Technology Inc. (Optivision Technology) | Subsidiaries |
| Everest Display Inc. (Everest Display) | Subsidiaries |
| iWin Technology Co., Ltd. (iWin) | Subsidiaries |
| K Laser Technology (Korea) Co., Ltd. (K Laser Korea) | Subsidiaries |

(Continued)

| Related Party Name | Related Party Category |
|--|---|
| K Laser Technology (Thailand) Co., Ltd. (K Laser Thailand) | Subsidiaries |
| K Laser Technology (USA) Co., Ltd. (K Laser USA) | Subsidiaries |
| K Laser IMEA Co., Ltd. (IMEA) | Subsidiaries |
| Amagic Technologies U.S.A. (Dubai) (Amagic Dubai) | Subsidiaries |
| K Laser Technology Japan Co., Ltd. (K Laser Japan) | Subsidiaries |
| K Laser Technology (HK) Co., Ltd. (K Laser Hong Kong) | Subsidiaries |
| Holomagic Co., Ltd. (Holomagic) | Subsidiaries |
| Top Band Investment Limited (Top Band) | Subsidiaries |
| Wuxi K Laser Technology Co., Ltd. (Wuxi K Laser) | Subsidiaries |
| Hunan Herui Laser Technology Co., Ltd. (Hunan Herui Laser) | Subsidiaries |
| Dongguan K Laser Technology Co., Ltd (Dongguan K Laser) | Subsidiaries |
| Amagic Holographic India Private Limited (K Laser India) | Subsidiaries |
| Finity Laboratories (Finity) | Subsidiaries |
| Insight Medical Solutions Inc. | Associate under the equity method, becomes a subsidiary since December 23, 2019 |
| Jiangsu Xinguang Laser Packing Materials Co., Ltd. | Associate under the equity method (Concluded) |

b. Operating income and expenses

| | 2019 | 2018 |
|----------------------------------|-------------------|-------------------|
| <u>Sales</u> | | |
| Subsidiaries | | |
| International | \$ 210,482 | \$ 168,840 |
| K Laser USA | 145,918 | 130,106 |
| K Laser Japan | 73,137 | 66,080 |
| Others | 29,226 | 37,571 |
| | <u>\$ 458,763</u> | <u>\$ 402,597</u> |
| | 2019 | 2018 |
| <u>Purchases</u> | | |
| Subsidiaries | | |
| Top Band | \$ 355,168 | \$ 301,407 |
| Others | 26,825 | 32,572 |
| | <u>\$ 381,993</u> | <u>\$ 333,979</u> |
| <u>Operating expenses</u> | | |
| Subsidiaries | <u>\$ 2,743</u> | <u>\$ 4,211</u> |
| <u>Other income</u> | | |
| Subsidiaries | | |
| Top Band | \$ 27,675 | \$ 25,637 |
| Optivision Technology | 13,908 | 13,793 |
| Everest Display | 4,398 | 4,417 |
| Others | 1,781 | 2,921 |
| Associates | 4,418 | 4,252 |
| | <u>\$ 52,180</u> | <u>\$ 51,020</u> |

The price and payment terms to related parties were not significantly different from those to general customers.

- c. The outstanding balance at the balance sheet date is as follows:

| | December 31 | |
|---|--------------------|------------------|
| | 2019 | 2018 |
| <u>Receivables from related parties</u> | | |
| Subsidiaries | | |
| International | \$ 13,650 | \$ 42,969 |
| K Laser USA | 47,579 | 14,205 |
| K Laser Japan | 15,640 | 22,928 |
| Others | 5,474 | 8,485 |
| | <u>\$ 82,343</u> | <u>\$ 88,587</u> |
| <u>Payables to related parties</u> | | |
| Subsidiaries | | |
| Top Band | \$ 58,161 | \$ 37,341 |
| Others | 1,388 | 6,833 |
| | <u>\$ 59,549</u> | <u>\$ 44,174</u> |
| <u>Other receivables</u> | | |
| Subsidiaries | | |
| Top Band | \$ 5,884 | \$ 4,796 |
| Optivision Technology | 2,033 | 761 |
| Everest Display | 574 | 476 |
| Others | 4,306 | 2,351 |
| Associates | - | 830 |
| | <u>\$ 12,797</u> | <u>\$ 9,214</u> |
| <u>Other payables</u> | | |
| Subsidiaries | <u>\$ 629</u> | <u>\$ 320</u> |

- d. Asset transactions

The details of the Company's acquisition of fixed assets from related parties are as follows:

| | 2019 | | 2018 | |
|--------------|-----------------|-------------------------|-----------------|-------------------------|
| | Item | Acquisition Cost | Item | Acquisition Cost |
| Subsidiaries | Other equipment | <u>\$ 197</u> | Other equipment | <u>\$ -</u> |

- e. Accommodation of funds

Loans provided to related parties by the Company in 2019 and 2018 are as follows:

| | 2019 | | | |
|------------------------------------|------------------------|-----------------------|------------------------|----------------------|
| Related Party Category/Name | Maximum Balance | Ending Balance | Interest Income | Interest Rate |
| Subsidiaries | \$ 60,000 | \$ - | \$ - | 3% |

| Related Party Category/Name | 2018 | | | |
|------------------------------------|----------------------------|---------------------------|----------------------------|----------------------|
| | Maximum Balance | Ending Balance | Interest Income | Interest Rate |
| Subsidiaries | \$ 60,000 | \$ - | \$ 800 | 3% |

f. Endorsements and guarantees

As of December 31, 2019 and 2018, the loan balance of the Company's chairman, Mr. Kuo Wei-Wu, as a guarantor amounted to \$1,354,000 thousand and \$1,315,000 thousand, respectively. Refer to Note 17.

g. Compensation of key management personnel

| | 2019 | 2018 |
|------------------------------|-------------|-------------|
| Short-term employee benefits | \$ 6,806 | \$ 7,321 |

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

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of the Company are loan contracts and transportation requirements, which were used as guarantees for loans or land leases:

| | December 31 | |
|---|--------------------|-------------------|
| | 2019 | 2018 |
| Bank deposits (Note 6) | \$ 5,000 | \$ 5,000 |
| Property, plant and equipment (Note 12) | 99,881 | 105,987 |
| Investment properties (Note 12) | 49,908 | 51,552 |
| | <u>\$ 154,789</u> | <u>\$ 162,539</u> |

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The details of endorsements/guarantees provided by the Company were as follows:

| | (In Thousands of New Taiwan Dollars) | |
|---------------------------|---|-------------------|
| | December 31 | |
| | 2019 | 2018 |
| Everest Display Inc. | | |
| Guarantee amount | \$ 480,000 | \$ 480,000 |
| Actual amount transferred | <u>\$ 405,036</u> | <u>\$ 416,079</u> |

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies were as follows:

| (In thousands of New Taiwan Dollars or Foreign Currencies) | | | | | | |
|--|---------------------|------------------|--------|---------------------|------------------|---------|
| | December 31, 2019 | | | December 31, 2018 | | |
| | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ | 7,159 | 29.980 | \$ | 5,925 | 30.7150 |
| RMB | | 383 | 4.3050 | | 48 | 4.4720 |
| Long-term equity investments accounted for using the equity method | | | | | | |
| USD | \$ | 24,915 | 29.980 | \$ | 23,851 | 30.7150 |
| RMB | | 492,899 | 4.3050 | | 509,262 | 4.4720 |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items | | | | | | |
| USD | | 2,045 | 29.980 | | 1,501 | 30.7150 |

31. SEGMENT INFORMATION

The Company has disclosed segment information in the consolidated financial statements, and this financial statements will not separately disclose such information.

32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 3)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
- 9) Trading in derivative instruments (None)
- 10) Information on investees (Table 6)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)
- 2) Any of the following significant transactions with investee companies in Mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 7):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to the financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

TABLE 1

K LASER TECHNOLOGY INC.

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currencies)

| No. (Note 1) | Lender | Borrower | Financial Statement Account | Related Party | Highest Balance for the Period | Ending Balance | Actual Amount Borrowed | Interest Rate (%) | Nature of Financing (Note 2) | Business Transaction Amount | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral | | Financing Limit for Each Borrower (Note 3) | Aggregate Financing Limit (Note 3) | Note |
|-----------------|--|--|--------------------------------|------------------|--------------------------------------|--------------------------|------------------------------|----------------------|------------------------------------|-----------------------------------|---|-------------------------------------|------------|-------|---|---|------|
| | | | | | | | | | | | | | Item | Value | | | |
| 0 | K Laser Technology Inc. | Everest Display Inc. | Other receivables | Yes | \$ 60,000 | \$ 60,000 | \$ - | 3 | 2 | \$ - | The need for financing operating capital | \$ - | - | - | \$ 240,109 | \$ 600,272 | |
| 1 | Dongguan K Laser Technology Co., Ltd. | Hunan Hexin Packing Materials Co., Ltd. | Other receivables | Yes | \$ 46,030 (RMB 10,000) | \$ 40,898 (RMB 9,500) | \$ 34,440 (RMB 8,000) | 4.31 | 2 | - | The need for financing operating capital | \$ - | - | - | \$ 431,189 (RMB100,160) | \$ 431,189 (RMB100,160) | |

Note 1: The Company is coded “0”.
The investees are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: The financing that occurred due to business relationship is coded “1”.
The financing that occurred due to short-term financing needs is coded “2”.

Note 3: The types of capital loans to others between the Company and its subsidiaries are as follows:

a. The financing and aggregate financing limit to others shall not exceed 25% the current net worth of the Company, and the individual loan financing and its amount shall not exceed 10% of the current net worth of the Company.

b. According to the Company’s subsidiary loans to others and endorsement guarantee procedures, the total loans of the Group (subsidiary) shall not exceed 40% of the net worth of the Group (subsidiary) and the total amount of funds needed for loans to others in short-term financing between companies shall not exceed 40% of the net worth of the Group (subsidiary).

K LASER TECHNOLOGY INC.**ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. (Note 1) | Endorser/Guarantor | Endorsee/Guarantee | | Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 3) | Maximum Amount Endorsed/ Guaranteed During the Period | Outstanding Endorsement/ Guarantee at the End of the Period | Actual Amount Borrowed | Amount Endorsed/ Guaranteed by Collateral | Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements | Aggregate Endorsement/ Guarantee Limit (Note 3) | Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries | Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent | Endorsement/ Guarantee Given on Behalf of Companies in Mainland China |
|-----------------|-------------------------|----------------------|--------------------------|--|--|---|------------------------------|--|---|---|---|---|---|
| | | Name | Relationship (Note 2) | | | | | | | | | | |
| 0 | K Laser Technology Inc. | Everest Display Inc. | 3 | \$ 480,218 | \$ 480,000 | \$ 480,000 | \$ 405,036 | \$ - | 19.99% | \$ 960,436 | Yes | No | No |

Note 1: 1. The Company is coded “0”.
2. The investees are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: The six types of relationships between the endorser/guarantor and endorsee/guarantee are as follows:

- a. Companies with business relationship.
- b. Subsidiary in which over 50% of its ordinary shares is directly or indirectly owned by the Company.
- c. The total amount of the guarantee provided by the Company to subsidiaries whose direct or indirect voting shares are 50% above.
- d. Subsidiaries in which over 50% of their ordinary shares are directly or indirectly owned by the Company.
- e. Mutually endorsed/guaranteed companies for the construction project based on the construction contract.
- f. Companies of the same investment relationship as the stockholders of the companies provide endorsements/guarantees to, in proportion of their stockholding amounts, due to co-investment.

Note 3: The types of endorsement guarantee limits of the Company and its subsidiaries are as follows:

- a. According to the Company’s implementation measures for endorsement guarantees, the maximum limit for endorsement guarantees is limited to 40% of the Company’s net worth in the latest financial statements, and the limit for a single company’s endorsement guarantees shall not exceed 20% of the Company’s net worth in the latest financial statements.
- b. According to the Company’s subsidiary loans to others and endorsement guarantee procedures, the total amount of the Group (subsidiary) endorsement guarantees is limited to 40% of the Group (subsidiary)’s net worth in the latest financial statements, and the limit for a single enterprise shall not exceed 20% of the net worth in the latest financial statements of the Group (subsidiary).
- c. For those who have business transactions or associations with the Group, the individual loan amount shall not exceed the transaction amount between the two parties. The so-called business refers to the higher of purchase or sales between the two parties.

Note 4: For actual amounts of loans, refer to Note 27.

K LASER TECHNOLOGY INC.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2019 | | | | Note |
|---------------------------------------|---|---------------------------------------|--|-------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| K Laser Technology Inc. | <u>Shares</u> | | | | | | | |
| | Minton Optic Industry Co., Ltd. | - | Financial assets at FVTPL - non-current | 857,900 | \$ - | 1 | \$ - | |
| | CM Visual Technology Co., Ltd. | - | Financial assets at FVTOCI - non-current | 4,800,000 | 8,520 | 16 | 8,520 | |
| Bright Triumph Limited | China Development Biomedical Venture Co., Ltd. | - | Financial assets at FVTOCI - non-current | 3,000,000 | 28,161 | 2 | 28,161 | |
| | K Laser China Group (Cayman) Holdings Co., Ltd. | - | Financial assets at FVTOCI - non-current | 625,000 | 54,370 | 18 | 54,370 | |
| | Dongguan K Laser Technology Co., Ltd. | - | Financial assets at FVTOCI - non-current | 1,900,000 | 10,166 | 19 | 10,166 | |
| K Laser Technology Inc. | <u>Funds</u> | - | Financial assets at FVTPL - current | | | | | |
| | Jih Sun Asian High Yield Bond | - | Financial assets at FVTPL - current | 417,526 | 5,296 | - | 5,296 | |
| | Wuxi K Laser Technology Co., Ltd. | - | Financial assets at FVTPL - current | - | 150,675 | - | 150,675 | |
| Dongguan K Laser Technology Co., Ltd. | CR Yuanta Cash Income Money Market Fund | - | Financial assets at FVTPL - current | - | 24,281 | - | 24,281 | |
| | China Construction Bank Qianyuan Rixin Yueyi Exchange-traded Financial Products | - | Financial assets at FVTPL - current | - | 21,525 | - | 21,525 | |

Note 1: For information on investments in subsidiaries and associates, refer to Tables 6 and 7.

TABLE 4

K LASER TECHNOLOGY INC.

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currencies)**

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes Receivable (Payable)/Trade Receivables (Payables) | | Note |
|-----------------------------------|---|---|---------------------|--------------|---------------|---|----------------------|---------------|---|---------------|------|
| | | | Purchases/ Sales | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | |
| Optivision Technology Inc. | Ningbo Optivision Technology Co., Ltd. | Subsidiary | Sales | \$ 248,129 | 19 | Net 120 days from the end of the month when invoice is issued | N/A | N/A | \$ 103,044 | 16 | |
| | Dongguan Guangzhi Photoelectric Co., Ltd. | Other related party | Sales | 785,215 | 61 | Net 120 days from the end of the month when invoice is issued | N/A | N/A | 462,598 | 72 | |
| K Laser Technology Inc. | Top Band Investment Ltd. | Sub-subsidiary who indirectly owns 99.60% of its shares | Purchases | (355,168) | 75 | Net 60 days from the end of the month when invoice is issued | N/A | N/A | (58,161) | 72 | |
| | K Laser International Co., Ltd. | Subsidiary | Sales | 210,482 | 32 | Net 60 days from the end of the month when invoice is issued | N/A | N/A | 13,650 | 12 | |
| | K Laser Technology (USA) Co., Ltd. | Sub-subsidiary who indirectly owns 79.75% of its shares | Sales | 145,918 | 22 | Net 60 days from the end of the month when invoice is issued | N/A | N/A | 45,579 | 43 | |
| K Laser International Co., Ltd. | K Laser Technology (USA) Co., Ltd. | Subsidiary of the company | Sales | USD 7,156 | 97 | Net 60 days from the end of the month when invoice is issued | N/A | N/A | USD 696 | 93 | |
| Top Band Investment Ltd. | Dongguan K Laser Technology Co., Ltd. | Subsidiary of the company | Purchases | RMB (71,911) | 100 | Net 60 days from the end of the month when invoice is issued | N/A | N/A | RMB (14,283) | 99 | |
| Wuxi K Laser Technology Co., Ltd. | K Laser Technology (HK) Company Limited | Other related party | Sales | RMB 36,282 | 28 | Net 60 days from the end of the month when invoice is issued | N/A | N/A | RMB 7,605 | 22 | |

K LASER TECHNOLOGY INC.**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Related Party | Relationship | Ending Balance (Note 2) | Turnover Rate | Overdue | | Amount Received in Subsequent Period | Allowance for Impairment Loss |
|----------------------------|---|---------------------|---------------------------------|------------------|---------|----------------------------|---|-------------------------------------|
| | | | | | Amount | Actions Taken | | |
| Optivision Technology Inc. | Dongguan Guangzhi Photoelectric Co., Ltd. | Other related party | Trade receivables \$ 462,598 | 1.77 | \$ - | - | \$ 104,978 | \$ 6,250 |
| | Ningbo Optivision Technology Co., Ltd. | Subsidiary | Trade receivables 103,044 | 2.12 | - | - | 41,082 | - |
| Everest Display Inc. | Boxlight Corporation | Other related party | Trade receivables 156,071 | 0.18 | 156,071 | Improve collection efforts | - | 145,428 |

TABLE 6

K LASER TECHNOLOGY INC.

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars or Foreign Currencies)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | As of December 31, 2019 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) of the Investee | Remark |
|--|--|------------------------|--|----------------------------|-------------------|---|-----|-----------------|-----------------------------------|--|--------|
| | | | | December 31, 2019 | December 31, 2018 | Number of Shares (In Thousands of Shares) | % | Carrying Amount | | | |
| K Laser Technology Inc. | K Laser China Group Co., Ltd. | British Virgin Islands | Reinvestment company | \$ 722,454 | \$ 860,508 | 21,289,005 | 100 | \$ 2,121,930 | \$ 146,921 | \$ 145,822 | |
| | K Laser International Co., Ltd. | British Virgin Islands | Reinvestment company | 703,856 | 703,856 | 20,361,462 | 100 | 729,085 | 11,917 | 11,917 | |
| | Optivision Technology Inc. | Hsinchu City | Production and sale of optical instruments and electronic components | 300,229 | 307,976 | 22,128,420 | 46 | 338,096 | (19,279) | (9,116) | |
| | iWin Technology Co., Ltd. | British Virgin Islands | Reinvestment company | 97,372 | 91,318 | 157,545 | 49 | 17,856 | (13,130) | (5,812) | |
| | Wellcome Co., Ltd. | Yunlin County | Manufacture, processing and trading of fluorescent pigments and dyes | 26,489 | 26,489 | 2,661,237 | 33 | 110,335 | 28,617 | 9,461 | |
| | Everest Display Inc. | Hsinchu City | Production and sales of optical instruments and wireless communication machinery and equipment | 406,056 | 405,227 | 13,187,334 | 80 | (185,906) | (307,239) | (246,388) | |
| | Chun Yao Co., Ltd. | Hsinchu City | R&D and sales of gastrointestinal endoscopy and other businesses | 264,613 | 147,312 | 8,885,264 | 44 | 241,828 | (23,360) | (11,039) | |
| K Laser International Co., Ltd. | K Laser Technology (USA) Co., Ltd. | USA | Sales of holographic products | USD 6,500 | USD 6,500 | 6,500,000 | 80 | USD 5,040 | USD 854 | USD 681 | |
| | K Laser Technology (Thailand) Co., Ltd. | Thailand | Holographic products manufacturing and sales | USD 1,801 | USD 1,801 | 9,277,984 | 83 | USD 9,502 | USD 687 | USD 568 | |
| | K Laser Technology (Korea) Co., Ltd. | Korea | Holographic products manufacturing and sales | USD 2,946 | USD 2,095 | 677,040 | 100 | USD 2,041 | USD (95) | USD (95) | |
| | K Laser IMEA Co., Ltd. | Mauritius | Reinvestment company | USD 2,600 | USD 2,600 | 2,600,390 | 100 | USD 1,530 | USD (119) | USD (119) | |
| | Amagic Technologies U.S.A. (Dubai) Ltd. | Dubai | Holographic products sales and agency | USD 1,094 | USD 1,094 | - | 100 | USD 2,134 | USD 211 | USD 211 | |
| | K Laser Technology Japan Co., Ltd. | Japan | Holographic products manufacturing and sales | USD 830 | USD 830 | 1,344 | 70 | USD 2,721 | USD 71 | USD 49 | |
| | Guangfeng Optoelectronics (Wuxi) Co., Ltd. | China | Production and sales of optical instruments | USD 1,503 | USD 1,503 | 7,142,857 | 17 | USD 583 | USD (1,119) | USD (193) | |
| | Boxlight Corporation | USA | Production and sales of optical instruments | USD 2,005 | USD 2,005 | 322,157 | 3 | USD 81 | USD (8,333) | USD (686) | |
| | CIO Tech Ltd. | Cayman Islands | Reinvestment company | USD 750 | - | 11,000,000 | 24 | USD 711 | USD (198) | (USD 40) | |
| | K Laser China Group Holding Co., Limited | Cayman Islands | Reinvestment company | RMB 180,503 | RMB 211,291 | 102,901,766 | 100 | RMB 497,307 | RMB 32,728 | RMB 32,598 | |
| K Laser China Group Holding Co., Limited | Holoprint Co., Ltd. | British Virgin Islands | Reinvestment company | RMB 1 | RMB 1 | 1 | 100 | RMB - | RMB - | RMB - | |
| | K Laser Technology (HK) Co., Ltd. | Hong Kong | Sales agent of holographic products | RMB 1,092 | RMB 1,092 | 1,283,500 | 100 | RMB 8,010 | RMB 566 | RMB 566 | |
| | Holomagic Co., Ltd. | British Virgin Islands | Reinvestment company | RMB 72,440 | RMB 72,440 | 30,000 | 100 | RMB 225,012 | RMB 4,400 | RMB 4,544 | |
| | Top Band Investment., Ltd. | British Virgin Islands | Reinvestment company | RMB 130,106 | RMB 130,106 | 50,000 | 100 | RMB 249,160 | RMB 32,555 | RMB 32,543 | |
| | iWin Technology Co., Ltd. | British Virgin Islands | Reinvestment company | RMB 20,825 | RMB 19,459 | 163,975 | 51 | RMB 4,408 | RMB (2,943) | RMB (1,501) | |

(Continued)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | As of December 31, 2019 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) of the Investee | Remark |
|---|---|----------------|---|----------------------------|-------------------|---|-----|-----------------|-----------------------------------|--|--------|
| | | | | December 31, 2019 | December 31, 2018 | Number of Shares (In Thousands of Shares) | % | Carrying Amount | | | |
| Holomagic Co., Ltd. | Treasure Access Limited | Hong Kong | Reinvestment company | RMB 29,243 | RMB 29,243 | 10,000 | 100 | RMB 222,366 | RMB 4,718 | RMB 4,718 | |
| Top Band Investment Ltd. | Union Bloom Co., Ltd. | Hong Kong | Reinvestment company | RMB 113,329 | RMB 113,329 | 10,000 | 100 | RMB 245,363 | RMB 30,691 | RMB 30,691 | |
| K Laser IMEA Co., Ltd. | Amagic Holographics India Private Limited | India | Holographic products manufacturing and sales | USD 2,508 | USD 2,508 | 10,915,594 | 100 | USD 1,474 | USD (118) | USD (118) | |
| iWin Technology Co., Ltd. | Finity Laboratories | USA | Holographic technology research and development | USD 700 | USD 700 | 700,000 | 100 | USD 1,095 | USD (1) | USD (1) | |
| Treasure Access Limited | Wuxi K Laser Technology Co., Ltd | China | Holographic products manufacturing and sales | RMB 44,156 | RMB 44,156 | - | 100 | RMB 149,539 | RMB 7,403 | RMB 7,403 | |
| | Hunan Herui Laser Technology Co., Ltd. | China | R&D and production of new environmental friendly packaging materials and anti-counterfeiting products | RMB 21,952 | RMB 21,952 | - | 49 | RMB 32,793 | RMB 9,520 | RMB 4,665 | |
| | Jiangsu Xinguang Laser Packing Materials Co., Ltd. | China | Production of special film coating, decorative film and environmental friendly transfer paper, etc. | RMB 26,600 | RMB 26,600 | 26,600,000 | 33 | RMB 34,553 | RMB (17,406) | RMB (5,782) | |
| Union Bloom Co., Ltd. | Dongguan K Laser Technology Co., Ltd. | China | Holographic products manufacturing and sales | RMB 165,621 | RMB 165,621 | - | 100 | RMB 250,400 | RMB 34,284 | RMB 34,284 | |
| Wuxi K Laser Technology Co., Ltd | Foshan Donglin Packing Materials Co., Ltd. | China | Production of cigarette packaging materials and extended products | RMB 8,253 | RMB 8,253 | - | 25 | RMB 8,140 | RMB 2,255 | RMB 564 | |
| Dongguan K Laser Technology Co., Ltd. | Hunan Hexin Packing Materials Co., Ltd. | China | Mainly engaged in the production, processing and sales of films and cigarette packs, and cigarette paper segmentation | RMB 48,100 | RMB 48,100 | - | 49 | RMB 47,740 | RMB 10,567 | RMB 5,178 | |
| K Laser Technology Inc. | Bright Triumph Limited | Mauritius | Reinvestment company | 242,173 | 242,173 | 7,913,767 | 100 | 129,951 | 125 | 125 | |
| Bright Triumph Limited | Ningbo Optivision Technology Co., Ltd. | China | Manufacturing, processing and production of brightening film, prism film, diffusion film and optical film | USD 5,258 | USD 5,258 | - | 100 | USD 2,520 | USD 3 | USD 3 | |
| Everest Display Inc. | Everest Display International Inc. Boxlight Corporation | Samoa | Reinvestment company | 217,125 | 217,125 | 6,820,810 | 100 | 26,471 | 46,733 | 46,733 | |
| | | USA | Production and sales of optical instruments | 140,258 | 140,258 | 707,979 | 6 | 5,347 | (257,908) | (120,816) | |
| Everest Display International Inc. | Guangfeng Optoelectronics (Wuxi) Co., Ltd. Boxlight Corporation | China | Production and sales of optical instruments | USD 2,014 | USD 2,014 | 11,456,748 | 28 | USD 602 | USD (1,119) | USD (310) | |
| | | USA | Production and sales of optical instruments | - | - | 1,903,587 | 16 | 480 | USD (8,333) | USD 1,870 | |
| Insight Medical Solutions Inc. | Insight Medical Solutions Holdings Inc. | Cayman Islands | Reinvestment company | USD 750 | - | 750,000 | 100 | 22,022 | (819) | (819) | |
| | Yun Chuang Medical Materials Co., Ltd. | Hsinchu City | Sales of gastrointestinal endoscopy and other businesses | 20,000 | - | 2,000,000 | 80 | 12,397 | (8,219) | (3,563) | |
| Insight Medical Solutions Holdings Inc. | Chunyao Medical Technology (Wuxi) Co., Ltd. | China | R&D and sales of gastrointestinal endoscopy and other businesses | USD 750 | - | 750,000 | 100 | USD 734 | USD (27) | USD (27) | |

(Concluded)

TABLE 7

K LASER TECHNOLOGY INC.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currencies)

- a. Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the period and repatriations of investment income:

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of December 31, 2019 | Accumulated Repatriation of Investment Income as of December 31, 2019 | Note |
|---|--|--|----------------------|---|---------------------|--------|---|-----------------------------------|--|--------------------------|---|---|------|
| | | | | | Outward | Inward | | | | | | | |
| Wuxi K Laser Technology Co., Ltd | Research and development, production of laser holography products, optoelectronic equipment and optoelectronic materials | \$ 543,889 (RMB 126,339) | b. | \$ 200,566 (USD 6,690) | \$ - | \$ - | \$ 200,566 (USD 6,690) | \$ 31,870 (RMB 7,403) | 100 | \$ 31,870 (RMB 7,403) | \$ 643,765 (RMB 149,539) | \$ 179,097 (RMB 41,602) | |
| Dongguan K Laser Technology Co., Ltd. | Engaged in the production and sales of other polyethylene and rigid PVC films and foils | 712,998 (RMB 165,621) | b. | 61,729 (USD 2,059) | - | - | 61,729 (USD 2,059) | 147,593 (RMB 34,284) | 100 | 147,593 (RMB 34,284) | 1,077,972 (RMB 250,400) | 419,931 (RMB 97,545) | |
| Dongguan Japan-US Laser Printing Co., Ltd. (Note 5) | Engaged in the production and sales of color box prints and laser prints | 109,080 (RMB 25,338) | a. | 64,457 (USD 2,150) | - | - | 64,457 (USD 2,150) | - | - | - | - | - | |
| Hunan Herui Laser Technology Co., Ltd. | R&D, production and operation of new environmental friendly packaging materials and anti-counterfeiting products such as laser paper and anodized aluminum | \$ 222,999 (RMB 51,800) (Note 2) | b. | - | - | - | - | 40,984 (RMB 9,520) | 49 | 20,083 (RMB 4,665) | 141,174 (RMB 32,793) | 16,372 (RMB 3,803) | |
| Jiangsu Xinguang Laser Packing Materials Co., Ltd. | Production of special film coating, decorative film and environmental friendly transfer paper, etc. | \$ 344,400 (RMB 80,000) (Note 3) | b. | - | - | - | - | (74,933) (RMB -17,406) | 33 | (24,892) (RMB -5,782) | 148,751 (RMB 34,553) | 37,307 (RMB 8,666) | |
| Guangfeng Optoelectronics (Wuxi) Co., Ltd. | R&D and production of large LCD projection displays, optical engines for displays, projection tubes, etc. | 177,934 (RMB 41,332) | b. | 64,457 (USD 1,503) | - | - | 45,060 (USD 1,503) | (33,548) (RMB -1,119) | 17 | (5,786) (USD -193) | 17,478 (USD 583) | - | |

- b. Limit on the amount of investments in the mainland China area:

| Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2019 | Investment Amount Authorized by the Investment Commission, MOEA | Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA |
|--|---|--|
| \$ 371,812 (USD 12,402) | \$ 1,810,312 (USD 60,384) (Note 4) | \$ 1,440,653 (Note 1) |

The method of investment includes the following:

- Indirect investment in mainland China through remittance across third region.
- Indirect investment in mainland China through companies registered in a third region.

Note 1: Obtained the approval of operation headquarters according to the regulations, so the investment amount is not subject to the limit of 60% net worth or NT\$80 million.

Note 2: Including US\$2,512 thousand of cash investment through businesses in the third region.

Note 3: Including US\$3,705 thousand of cash investment through businesses in the third region.

Note 4: Including surplus reinvestment amount of US\$11,748 thousand.

Note 5: The equity investment had been disposed of, but not yet cancelled by the investment review committee.

c. Significant direct or indirect transactions with investees located in the mainland China area:

| Related party | Relationship | Transaction Type | Amount | Transaction Details | | | Notes Receivable (Payable)/Trade Receivables (Payables) | | Unrealized (Gain) Loss |
|---------------------------------------|--|------------------|-------------------------|---------------------|--|--|---|----|------------------------|
| | | | | Price | Payment Terms | Comparison with Normal Transactions | Ending Balance | % | |
| Wuxi K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Sales | \$ 705 (USD 23) | Negotiation | Net 60 days from the end of the month when invoice is issued | Not significantly different from those of sales to third parties | \$ - (USD -) | - | \$ - |
| Dongguan K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Sales | 8,322 (USD 270) | Negotiation | Net 90 days from the end of the month when invoice is issued | Not significantly different from those of sales to third parties | 2,396 (USD 80) | 2 | (509) |
| Wuxi K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Purchases | 25,845 (USD 833) | Negotiation | Net 60 days from the end of the month when invoice is issued | Not significantly different from those of sales to third parties | 1,380 (USD 46) | 2 | - |
| Dongguan K Laser Technology Co., Ltd. | Subsidiary of which 100% ownership is held indirectly by the Company | Purchases | 355,168 (USD 11,460) | Negotiation | Net 60 days from the end of the month when invoice is issued | Not significantly different from those of sales to third parties | 58,161 (USD 1,940) | 72 | - |

- a. The amount of asset transactions and profit or loss generated: None.
- b. Companies invested in mainland China provides endorsements, guarantees, or collateral directly and indirectly through businesses in the third region: Table 2
- c. Provide direct and indirect accommodation of funds to the companies invested in mainland China through the third region: None.
- d. Other transactions that have a significant impact on the current profit or loss or financial status: None.

K LASER TECHNOLOGY INC.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

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STATEMENT 1**K LASER TECHNOLOGY INC.****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars or Foreign Currencies)**

| Item | Summary | Amount |
|-----------------------------|---------------------------------|-------------------|
| Cash on hand and petty cash | | \$ 6,663 |
| Bank deposits | Current deposit - NTD | 161,654 |
| | Current deposit - USD 1,710,912 | 51,293 |
| | Current deposit - EUR 132,557 | 4,453 |
| | Current deposit - RMB 250,900 | 1,080 |
| | Current deposit - HKD 1,394 | 5 |
| | Current deposit - AUD 71 | 2 |
| | Current deposit - JPY 21 | - |
| | Current deposit - USD 1,950,000 | <u>58,461</u> |
| | | <u>\$ 283,611</u> |

Exchange rates are as follows:

1 USD = 29.98 NTD

1 EUR = 33.59 NTD

1 RMB = 4.305 NTD

1 HKD = 3.849 NTD

1 AUD = 21.005 NTD

1 JPY = 0.276 NTD

K LASER TECHNOLOGY INC.**STATEMENT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE TO PROFIT OR LOSS -
CURRENT****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Name of Financial Instrument | Number of Units | Par Value (NTD) | Acquisition Cost | Fair Value | |
|-------------------------------|-----------------|-----------------|------------------|------------------|-----------------|
| | | | | Unit Price (NTD) | Total |
| Fund | | | | | |
| Jih Sun Asian High Yield Bond | 417,526 | - | 5,000 | - | <u>\$ 5,296</u> |

K LASER TECHNOLOGY INC.**STATEMENT OF NOTES RECEIVABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Client Name | Summary | Amount |
|--------------------|----------------|-----------------|
| Jing You | Payments | \$ 809 |
| Foremost | Payments | 608 |
| Der Yang Aluminum | Payments | 468 |
| Li Sheng | Payments | 280 |
| Kai Qiang | Payments | 219 |
| Chang Bo | Payments | 213 |
| Others (Note) | Payments | <u>636</u> |
| | | <u>\$ 3,233</u> |

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

K LASER TECHNOLOGY INC.**STATEMENT OF TRADE RECEIVABLES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Client Name | Summary | Amount |
|---|----------------|------------------|
| Environmental Protection Department, New Taipei City Government | Payments | \$ 3,978 |
| Hon Chuan | Payments | 2,761 |
| Environmental Protection Department, Taipei City Government | Payments | 2,522 |
| Gorin | Payments | 1,784 |
| MURATA KIMPAKU | Payments | 1,022 |
| Others (Note) | Payments | 14,139 |
| Less: Allowance for doubtful receivables | | <u>(22)</u> |
| | | <u>\$ 26,184</u> |

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

K LASER TECHNOLOGY INC.**STATEMENT OF OTHER RECEIVABLES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|-------------------|--------------------|------------------|
| Other receivables | Related party | \$ 12,797 |
| | Others (Note) | <u>647</u> |
| | | <u>\$ 13,444</u> |

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

K LASER TECHNOLOGY INC.**STATEMENT OF INVENTORIES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Amount | |
|---|------------------|-----------------------------|
| | Cost | Net Realizable Value |
| Raw materials | \$ 10,711 | \$ 10,555 |
| Work-in-progress | 1,577 | 1,577 |
| Finished goods | 14,056 | 12,685 |
| Merchandise | 12,437 | 11,894 |
| Less: Allowance for inventory valuation and obsolescence losses | <u>(2,070)</u> | <u>-</u> |
| | <u>\$ 36,711</u> | <u>\$ 36,711</u> |

STATEMENT 7

K LASER TECHNOLOGY INC.

STATEMENT OF OTHER CURRENT ASSETS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

| Item | Description | Amount |
|--------------|---------------------------------------|-----------------|
| Prepayment | Prepayment for purchase and insurance | \$ 3,605 |
| Retained tax | | <u>1,042</u> |
| | | <u>\$ 4,647</u> |

K LASER TECHNOLOGY INC.

STATEMENT OF CHANGES IN FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT
 DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars)

| Item | Amount at the Beginning of Year | | Increase in the Year | | Decrease in the Year | | Balance at the End of Year | | | Guarantee, Pledge or Mortgage |
|---|---------------------------------|------------------|----------------------|--------------------|-----------------------|-------------|----------------------------|-------------------|------------------|-------------------------------------|
| | Number of Shares | Amount | Number of Shares | Amount (Note 1) | Pledge or Mortgage | Amount | Number of Shares | Ownership Held | Amount | |
| CM Visual Technology Corporation | 4,800,000 | \$ 37,050 | - | \$ (28,530) | - | \$ - | 4,800,000 | 16 | \$ 8,520 | None |
| China Development Biomedical Venture Co., Ltd. | 3,000,000 | <u>29,978</u> | - | <u>(1,817)</u> | - | <u>-</u> | 3,000,000 | 2 | <u>28,161</u> | None |
| | | <u>\$ 67,028</u> | | <u>\$ (30,347)</u> | | <u>\$ -</u> | | | <u>\$ 36,681</u> | |

Note 1: The amount of allowance valuation was adjusted at the end of the period according to fair value.

K LASER TECHNOLOGY INC.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

| Item | Amount at the Beginning of Year | | Increase in the Year | | Decrease in the Year | | Balance at the End of Year | | | Net/Market Price | Guarantee, Pledge or Mortgage |
|------------------------------------|---------------------------------|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------------|----------------|---------------------|---------------------|-------------------------------|
| | Number of Shares | Amount | Number of Shares | Amount (Note 1) | Number of Shares | Amount (Note 2) | Number of Shares | Ownership held | Amount | | |
| K Laser China Group Co., Ltd. | 25,771,139 | \$ 2,277,418 | - | \$ 61,307 | 4,482,134 | \$ 216,795 | 21,289,005 | 100 | \$ 2,121,930 | \$ 2,172,120 | None |
| K Laser International Co., Ltd. | 20,361,462 | 714,530 | - | 14,555 | - | - | 20,361,462 | 100 | 729,085 | 751,543 | None |
| i Win Technology Co., Ltd. | 147,745 | 18,059 | 9,800 | (203) | - | - | 157,545 | 49 | 17,856 | 18,233 | None |
| Optivision Technology Inc. | 22,699,420 | 353,483 | - | (6,648) | 571,000 | 8,738 | 22,128,420 | 46 | 338,096 | 409,376 | None |
| Wellcome Co., Ltd. | 2,661,237 | 105,274 | - | 5,061 | - | - | 2,661,237 | 33 | 110,335 | 110,335 | None |
| Everest Display Inc. (Note 3) | 13,022,334 | 60,332 | - | - | 13,022,334 | 60,332 | - | 80 | - | - | None |
| Chunyao Medical Electric Co., Ltd. | 5,456,440 | <u>72,197</u> | 3,628,824 | <u>173,387</u> | 200,000 | <u>3,756</u> | 8,885,264 | 44 | <u>241,828</u> | <u>241,828</u> | None |
| | | <u>\$ 3,601,293</u> | | <u>\$ 247,459</u> | | <u>\$ 289,621</u> | | | <u>\$ 3,559,130</u> | <u>\$ 3,703,435</u> | |

Note 1: It includes increased investment costs in the current period, investment gains and losses recognized under the equity method, conversion of treasury shares held by the company, shares held by subsidiaries and conversion of foreign currency denominated financial statements and adjustment of changes in net worth.

Note 2: It includes current disposals, cash dividends and refunds from capital reduction.

Note 3: Since Everest Display Inc.'s net worth at the end of the period is negative, it is transferred to other non-current liabilities.

K LASER TECHNOLOGY INC.

STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

| Item | Beginning Balance (Note 1) | Additions | Deductions | Ending Balance |
|-----------------------------------|----------------------------------|-----------------|-------------|-------------------|
| <u>Cost</u> | | | | |
| Land | \$ 77,364 | \$ - | \$ - | \$ 77,364 |
| Buildings | 3,936 | 266 | - | 4,202 |
| Transportation equipment | 4,842 | - | - | 4,842 |
| Total cost | <u>\$ 86,142</u> | <u>\$ 266</u> | <u>\$ -</u> | <u>\$ 86,408</u> |
| <u>Accumulated depreciation</u> | | | | |
| Land | \$ - | \$ 4,072 | \$ - | \$ 4,072 |
| Buildings | - | 821 | - | 821 |
| Transportation equipment | - | 1,835 | - | 1,835 |
| Total accumulated depreciation | <u>\$ -</u> | <u>\$ 6,728</u> | <u>\$ -</u> | <u>\$ 6,728</u> |

Note 1: The amounts of beginning balance are adjusted according to IFRS 16.

K LASER TECHNOLOGY INC.**STATEMENT OF OTHER NON-CURRENT ASSETS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Item | Description | Amount |
|---------------------|----------------------|------------------|
| Refundable deposits | | \$ 15,769 |
| Restricted assets | Land lease guarantee | 5,000 |
| Others | | <u>1,671</u> |
| | | <u>\$ 22,440</u> |

K LASER TECHNOLOGY INC.
STATEMENT OF SHORT-TERM BORROWINGS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

| <u>Item</u> | <u>Description</u> | <u>Borrowed Amount</u> | <u>Contract Period</u> | <u>Quota</u> | <u>Interest Rate</u> | <u>Pledge or Mortgage</u> |
|-----------------------|--------------------|------------------------|------------------------|-------------------|----------------------|---------------------------|
| Short-term borrowings | | | | | | |
| Hua Nan Bank | Line of credit | \$ 40,000 | 2019.12.04-2020.03.04 | \$ 150,000 | 1.00 | None |
| First Bank | Line of credit | 75,000 | 2019.12.13-2020.01.22 | 80,000 | 1.00 | None |
| Fubon Bank | Line of credit | 39,000 | 2019.09.18-2020.03.16 | 59,960 | 0.95 | None |
| Mega Bank | Line of credit | 30,000 | 2019.11.09-2020.03.30 | 50,000 | 1.00 | None |
| Taishin Bank | Line of credit | 50,000 | 2019.12.25-2020.01.31 | 100,000 | 1.00 | None |
| | | <u>\$ 234,000</u> | | <u>\$ 439,960</u> | | |

K LASER TECHNOLOGY INC.**STATEMENT OF TRADE PAYABLES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

| Name of Company | Description | Amount |
|------------------------|--------------------|------------------|
| Nong Bao | Payments | \$ 8,601 |
| Koan Hao Technology | Payments | 2,051 |
| Univacco Technology | Payments | 5,424 |
| You Ling | Payments | 1,379 |
| Cai Feng | Payments | 1,122 |
| Others (Note) | Payments | <u>2,472</u> |
| | | <u>\$ 21,049</u> |

Note: Customers with amounts not exceeding 5% of the account balance were consolidated.

K LASER TECHNOLOGY INC.**STATEMENT OF OTHER CURRENT LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|------------------|
| Advance payments | \$ 2,495 |
| Temporary receipts | 1,019 |
| Withholding taxes | 252 |
| Advance receipts from transfer of employees' treasury shares | <u>49,237</u> |
| | <u>\$ 53,003</u> |

K LASER TECHNOLOGY INC.

**STATEMENT OF NON-CURRENT LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|----------------------------|--------------------|---------------|
| Guarantee deposit received | Lease deposit | <u>\$ 942</u> |

K LASER TECHNOLOGY INC.
STATEMENT OF LEASE LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

| Item | Lease Period | Discount Rate (%) | Amount |
|--------------------------|-----------------------|------------------------------|------------------|
| Land | 2018.10.16-2037.12.31 | 1.4 | \$ 73,784 |
| Buildings | 2019.01.01-2023.12.31 | 1.5 | 3,406 |
| Transportation equipment | 2018.06.01-2021.12.17 | 1.5 | <u>3,030</u> |
| | | | 80,220 |
| Less: Current portion | | | <u>(6,227)</u> |
| | | | <u>\$ 73,993</u> |

K LASER TECHNOLOGY INC.**STATEMENT OF OPERATING REVENUE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|-------------------------|-------------------|
| Laser films | \$ 531,758 |
| Anti-counterfeit labels | 65,738 |
| Laser papers | 12,528 |
| Others | <u>40,262</u> |
| | <u>\$ 650,286</u> |

K LASER TECHNOLOGY INC.**STATEMENT OF COST OF GOODS SOLD****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|-------------------|
| Direct raw materials | |
| Add: Materials at beginning of year | \$ 9,477 |
| Materials purchased in the year | 79,155 |
| Transferred from merchandise | 323 |
| Less: Transferred to manufacturing expenses | (5,542) |
| and operating expenses | |
| Transferred to merchandise | (287) |
| Raw materials sold | (6,828) |
| Materials at end of year | <u>(10,711)</u> |
| Direct consumption of raw materials | 65,587 |
| Direct labor | 19,027 |
| Manufacturing expenses | <u>85,151</u> |
| Manufacturing cost | 169,765 |
| Add: Work in progress at beginning of year | 1,479 |
| Less: Transferred to manufacturing expenses and | (15,625) |
| operating expenses | |
| Work in progress at end of year | <u>(1,577)</u> |
| Cost of semi-finished goods | 154,042 |
| Add: Finished goods at beginning of year | 21,212 |
| Less: Transferred to manufacturing expenses and | (9,963) |
| operating expenses | |
| Finished goods at end of year | <u>(14,056)</u> |
| Cost of goods sold, finished goods | <u>151,235</u> |
| Cost of goods sold, merchandise | |
| Add: Merchandise at beginning of year | 7,430 |
| Purchases in the year | 393,195 |
| Transferred from raw materials | 287 |
| Less: Transferred to manufacturing expenses | (331) |
| and operating expenses | |
| Transferred to raw materials | (323) |
| Merchandise at end of year | <u>(12,437)</u> |
| Cost of goods sold, merchandise | 387,821 |
| Raw materials sold | 6,828 |
| Others | <u>(3,770)</u> |
| Total cost of goods sold | <u>\$ 542,114</u> |

K LASER TECHNOLOGY INC.**STATEMENT OF SELLING AND MARKETING EXPENSES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|-------------------------|------------------|
| Salaries and bonuses | \$ 16,544 |
| Transportation expenses | 5,637 |
| Service fees | 5,627 |
| Advertisements | 3,808 |
| Others (Note) | <u>6,811</u> |
| | <u>\$ 38,427</u> |

Note: Items with amounts not exceeding 5% of the account balance were consolidated.

K LASER TECHNOLOGY INC.**STATEMENT OF MANAGEMENT EXPENSES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|----------------------|------------------|
| Salaries and bonuses | \$ 40,224 |
| Donations | 8,015 |
| Service fees | 7,221 |
| Communication fees | 5,094 |
| Depreciation | 5,656 |
| Others (Note) | <u>13,728</u> |
| | <u>\$ 79,938</u> |

Note: Items with amounts not exceeding 5% of the account balance were consolidated.

K LASER TECHNOLOGY INC.**STATEMENT OF RESEARCH AND DEVELOPMENT EXPENSES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|------------------------|------------------|
| Research and test fees | \$ 23,694 |
| Salaries and bonuses | 19,322 |
| Depreciation | 8,912 |
| Service fees | 3,657 |
| Others (Note) | <u>6,930</u> |
| | <u>\$ 62,515</u> |

Note: Items with amounts not exceeding 5% of the account balance were consolidated.

K LASER TECHNOLOGY INC.**STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

| | 2019 | | | |
|---|---------------------------------|--|---|------------|
| | Classified as Operating Cost | Classified as Operating Expenses | Classified as Other Non-operating Expenses and Losses | Amount |
| Short-term employee benefits | | | | |
| Salary expenses | \$ 31,195 | \$ 70,083 | \$ - | \$ 101,278 |
| Labor and health insurance expenses | \$ 3,341 | \$ 4,471 | \$ - | \$ 7,811 |
| Retirement benefits | \$ 1,811 | \$ 3,592 | \$ - | \$ 5,403 |
| Director's remuneration | \$ - | \$ 1,536 | \$ - | \$ 1,536 |
| Other employee benefits | \$ 494 | \$ 509 | \$ - | \$ 1,003 |
| Depreciation expenses | | | | |
| Depreciation of property, plant and equipment | \$ 12,939 | \$ 11,392 | \$ 1,403 | \$ 25,735 |
| Depreciation of right-of-use assets | 1,423 | 3,451 | 1,854 | 6,728 |
| Depreciation of investment property | - | - | 1,644 | 1,644 |
| | \$ 14,362 | \$ 14,843 | \$ 4,901 | \$ 34,107 |
| Amortization expenses | \$ - | \$ 742 | \$ - | \$ 742 |
| 2018 | | | | |
| | Classified as Operating Cost | Classified as Operating Expenses | Classified as Other Non-operating Expenses and Losses | Amount |
| Short-term employee benefits | | | | |
| Salary expenses | \$ 29,728 | \$ 51,606 | \$ - | \$ 81,334 |
| Labor and health insurance expenses | \$ 3,192 | \$ 4,040 | \$ - | \$ 7,232 |
| Retirement benefits | \$ 1,747 | \$ 4,149 | \$ - | \$ 5,896 |
| Director's remuneration | \$ - | \$ 2,594 | \$ - | \$ 2,594 |
| Other employee benefits | \$ 475 | \$ 468 | \$ - | \$ 943 |
| Depreciation expenses | | | | |
| Depreciation of property, plant and equipment | \$ 13,749 | \$ 11,603 | \$ 626 | \$ 25,978 |
| Depreciation of investment property | - | - | 1,643 | 1,643 |
| | \$ 13,749 | \$ 11,603 | \$ 2,269 | \$ 27,621 |
| Amortization expenses | \$ - | \$ 640 | \$ - | \$ 640 |

Note 1: As of December 31, 2019 and 2018, the Company had 164 and 119 employees, respectively, of which 5 directors were not concurrently serving as employees in both years.

Note 2: As of December 31, 2019 and 2018, the average employee benefit expenses were \$726 thousand and \$836 thousand, respectively, the average employees' salaries were \$637 thousand and \$713 thousand, respectively. The average employee salaries expense had decreased by 10.7%.

6. Financial Distress in Company and Subsidiaries : None

Financial Status, Operating Results and Risk Management

1. Financial Analysis

Unit : NT \$Thousands

| Item \ Year | 2019 | 2018 | Difference | | Notes |
|----------------------------|-----------|-----------|------------|---------|-------|
| | | | Amount | % | |
| Current Assets | 4,404,924 | 4,326,249 | 78,675 | 1.82% | |
| Non-current Assets | 2,381,540 | 2,283,908 | 97,632 | 4.27% | |
| Total Assets | 6,786,464 | 6,610,157 | 176,307 | 2.67% | |
| Current Liabilities | 2,142,290 | 2,223,575 | -81,285 | -3.66% | |
| Long-term Liabilities | 1,400,653 | 998,362 | 402,291 | 40.30% | Note |
| Total Liabilities | 3,542,943 | 3,221,937 | 321,006 | 9.96% | |
| Capital | 1,593,246 | 1,593,246 | 0 | 0.00% | |
| Additional Paid in Capital | 551,531 | 529,962 | 21,569 | 4.07% | |
| Retained Earnings | 669,939 | 857,871 | -187,932 | -21.91% | |
| Total Equity | 3,243,521 | 3,388,220 | -144,699 | -4.27% | |

Ratio Analysis:

Explanation for the change in financial ratios over 20% in last two years:

Note: In 2019, due to the IFRS 16 to recognize lease liabilities , resulting in an increase in long-term liabilities .

2. Operating Analysis

Unit : NT \$Thousands

| Item \ Year | 2019 | 2018 | Difference | | Notes |
|---|-----------|-----------|------------|----------|-------|
| | | | Amount | % | |
| Net Sales | 5,199,022 | 5,202,250 | -3,228 | -0.06% | |
| Cost of Goods Sold | 4,014,862 | 4,116,452 | -93,495 | -2.28% | |
| Gross Profit | 1,184,160 | 1,085,798 | 90,267 | 8.25% | |
| Operating Expense | 1,153,142 | 921,044 | 232,098 | 25.20% | |
| Operating Income | 31,018 | 172,849 | -141,831 | -82.05% | Note |
| Non-Operating Revenue/Expense | -146,410 | -85,850 | -60,560 | 70.54% | Note |
| Income Before Tax | -115,392 | 86,999 | -202,391 | -232.64% | Note |
| Tax Expense (Benefit) | -43,317 | -62,544 | 19,227 | -30.74% | |
| Cumulative Effect of Changes in Accounting Principles | 0 | 0 | 0 | 0.00% | |
| Net Income | -158,709 | 24,455 | -183,164 | -748.98% | Note |

Ratio Analysis:

Explanation for the change in financial ratios over 20% in last two years:

Note: In 2019, due to the increase in expected credit impairment losses under operating expenses and the increase in non-operating investment losses, the overall profit declined significantly.

3. Cash Flow Analysis

3.1 Cash Flow Liquidity Analysis

Unit : NT \$Thousands

| Beginning Cash on Jan 1,2019 | Net Cash Flow from Operating Activities | Other Net Cash Flow | Cash Balance on Dec 31,2019 | Contingency Plans for Insufficient Cash Position | |
|--|---|---------------------|-----------------------------|--|----------------|
| | | | | Investment Plan | Financial Plan |
| 1,237,725 | 470,312 | (119,858) | 1,588,179 | — | — |
| 2019 Cash Analysis 1. Net Cash in-flow from Operating Activities amounting to NTD 470,312K K was majorly caused by the actively control receivables, resulting in increased cash inflows. 2. Net Cash out-flow from Investing Activities amounting to NTD 113,647K, to normal purchased Assets. 3. Net Cash in-flow from Financing Activities amounting to NTD 44,321K was caused by financing increases cash inflow 4. The Cash Out-flow from the Effect on Changed in Exchange Rate in 2019 were NTD(50,532K). | | | | | |

3.2 Remedy for Cash Shortfall and Analysis of Cash Liquidity : Not Applicable

3.3 Analysis of Cash Liquidity for 2020

Unit : NT\$ Thousands

| Beginning Cash on Jan 1,2020 | Projected Net Cash Flow from Operating Activities | Projected Net Cash Flow from Investing & Financing Activities | Projected Cash Balance on Dec 31,2020 | Cash Plans for Projected Insufficient Cash Position | |
|--|---|---|---------------------------------------|---|----------------|
| | | | | Investment Plan | Financing Plan |
| 1,588,179 | 358,328 | (259,507) | 1,687,000 | — | — |
| The projected net cash inflow in 2020 mainly consists of cash inflow from ordinary operation. The projected cash out flow from investing and financing activities includes incremental of financial assets, new equity investment and acquisition of equipment. The cash inflow from operating activities is sufficient to meet the cash requirement for investing and financing activities. | | | | | |

4. Major Capital Expenditure Analysis

4.1 Major Capital Expenditure and Its Source of Capital

Unit : NT\$ Thousands

| Planning Items | Actual or Planned Sourced Capital | Actual or Planned Completion Date | Total Amount Capital Required | The Execution of Actual or Planned Major Capital Expenditure | | | | |
|---|-----------------------------------|-----------------------------------|-------------------------------|--|-------|--------|-------|-------|
| | | | | 2020 | 2019 | 2018 | 2017 | 2016 |
| The wide Seamless holographic origination and production process | Own Capital | Dec 31,2020 | 43,226 | 9,750 | 1,700 | 11,388 | 4,336 | 282 |
| Hologram seamless electroforming equipment And production processes | Own Capital | Dec 31,2020 | 29,452 | 7,535 | 606 | 1,190 | 3,333 | 9,542 |

4.2 Estimated potential Benefits

4.2-1 The wide Seamless holographic origination and production process

- (1) Improve the efficiency of drum seamless recording.
- (2) Provide the wide seamless holographic to open up the new market.
- (3) The wide seamless process can lower the cost and improve the competitiveness of our products.

4.2-2 Hologram seamless electroforming equipment and production processes:

- (1) Proximity to enhance power capacity version seam casting manufacture.
- (2) Provide no version of the seam diversification electroformed products to expand into new market demands.

5. Long-Term Investment Analysis

5.1 Investment Policy:

The investment of the Company mainly focuses on the core related business. Through the integrating of up – and down-stream industries, we can expand the market base, decrease the cost of product and enhance the operating efficiency. The Company still focuses its investment in China. The Company continuously cooperates with the Chinese partners to leverage their market strength to apply the Company's product into the packaging market. The Company also cooperates with its investee companies to develop the new material, lower the operating cost, and improve the product quality.

5.2 Recent status of Investment Gains or Losses and improvements:

In 2019, the Company has recognized the other operating expense from investee companies amounted to NT 103,825 thousand dollars, which is NT91,943 thousand dollars less in comparison with the other operating expense amounting to NT 11,882 thousand dollars in 2018. It is mainly that BOXL's unstable revenue was improved in 2019 investment loss is reduced a lot in 2019.

5.3 Investment plan in 2020:

In response to the slowdown of China's economy and the Chinese government's policy of eliminating luxury, the company's investment in China will be slowed down in the coming year. It will maintain existing investment and continue to develop markets and products with existing joint ventures to deepen strategic partnerships. Another opportunity to assess market development in the Southeast Asian market, and expand the business base at the appropriate time.

6. Risk Management Analysis & Evaluation

6.1 Management of Economic Risk : Interest Rate Risk, Foreign Exchange Risk, Inflation

In 2019 the interest expense of the Company is NT 40,634 thousand dollars, and foreign exchange loss is NT 11,795 thousand dollars. The Company periodically evaluates bank interests and considers the financial derivatives to hedge the interest rate variation. As to the exchange rate, the Company collects the global finance information and the information for the foreign exchange rate variation from time to time and deals the foreign exchange transaction by the policy and tightly supervises the whole transaction flow.

6.2 Management of Financial Risk

6.2-1 High Risk of Financial Transactions :

To control financial risk, the Company is not engaged in high risk and high leveraged

financial investment. To control transaction risk, the Company regulates the by-law in compliance with F.S.C.'s relevant rules. It is also the regulation for internal control to supervise the finance and operation. For derivative products transactions, the Company shall comply with the by-law, Procedures for Derivative Products Transactions.

6.2-2 Status of Endorsement and Guarantee :

Pursuant to the Procedures for Making Endorsement and Guarantees made by the Company, the status of endorsement and guarantees is shown as below:

Unit : Thousands

| Name | Relationship | 2019 | Mar 31, 2020 |
|----------------------|--|-------------|--------------|
| Everest Display Inc. | KLT direct investment by holding 80.41%company | TWD 480,000 | TWD 480,000 |

6.2-3 Status of Lending of Capital by the Company :

Rule by "Procedures for Lending Funds to Other Parties".

Unit : Thousands

| From | To | Relation | 2019 | Mar 31, 2020 |
|-------------------------|----------------------|--|------------|--------------|
| K laser Technology Inc. | Everest Display Inc. | KLT direct investment by holding 80.41%company | TWD 60,000 | TWD 60,000 |

6.3 Upcoming Research & Development Plans and Estimates Investments

Unit : NT\$ Thousands

| Items | R&D Projects | Expenditure | Estimated Mass Production |
|-------|---|-------------|---------------------------|
| 1 | The wide Seamless holographic origination and production process | 9,750 | Dec. 2020 |
| 2 | Hologram seamless electroforming equipment And production processes | 7,535 | Dec. 2020 |

6.4 Political and Regulatory Environment : None

6.5 Technological Development Risk : None

6.6 Safety, Health and Environment Protection : None

6.7 Mergers and Acquisition : None

6.8 Factory Building Expansions and expected benefits of expansion, potential risks and mitigation : Increase drums electroforming manufacturing process yield and process stability

6.9 Procurement and Sales Concentration : None

6.10 Large Changes by Director, Supervisors, or Shareholders with Greater than 10% : None

6.11 Change in Operational Control : None

6.12 Litigious or Non-Litigious Matters : None

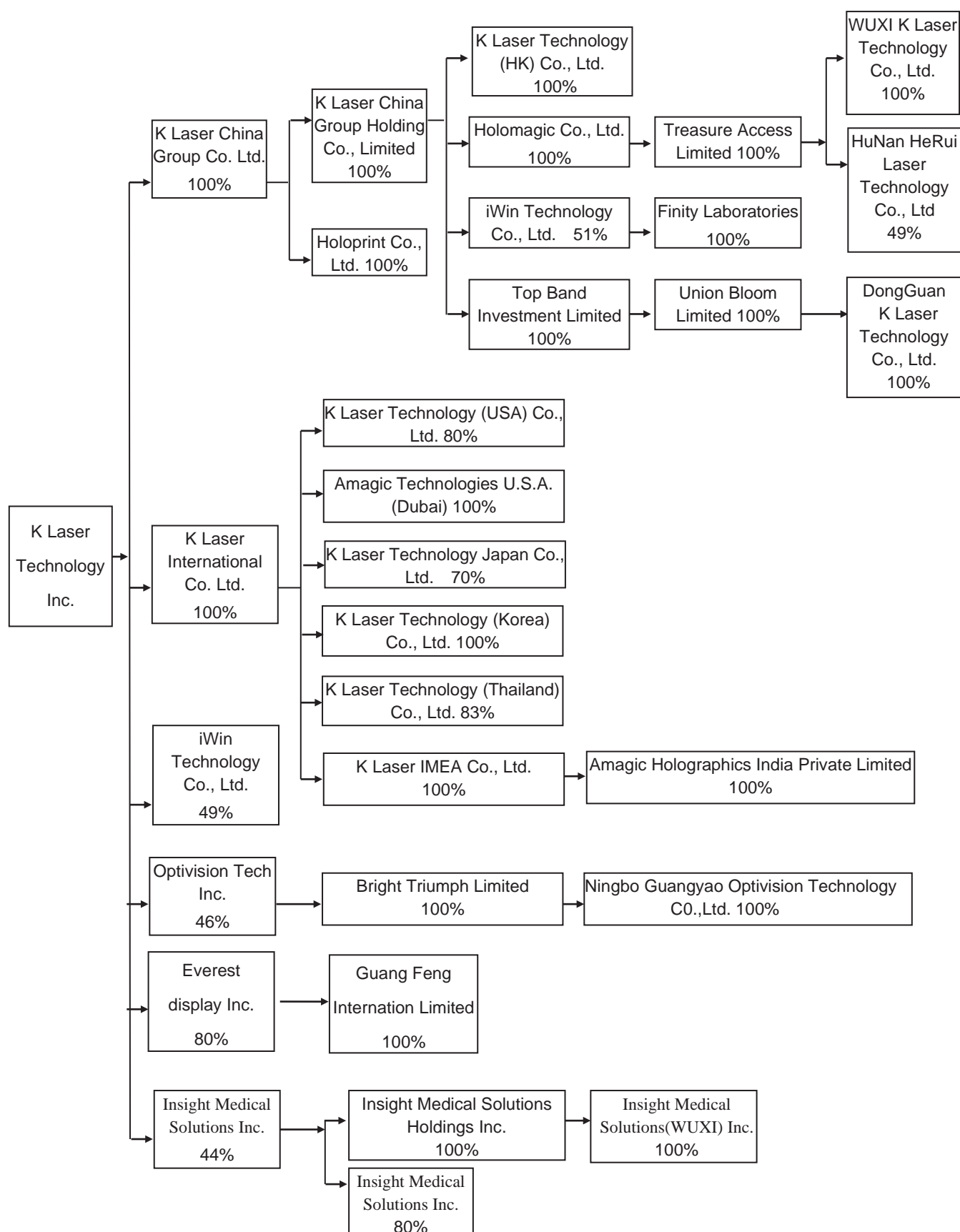
6.13 Risk from Other Important Issues : None

7. Other Material Events : None

Special Disclosures

1. Affiliates Information

1.1-1 Group Brief Introduction



1.1-2 Background Information of the Affiliated Companies

Unit: Original \$Thousands 2019/12/31

| Entity | Date of Incorporation | Address | Capital | Main Operation or Business Items |
|--|-----------------------|--|------------------|--|
| K Laser China Group Co., Ltd. | 2000/10/31 | Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands | RMB \$ 373,458 | Investment Business |
| Holoprint Co., Ltd. | 2000/09/29 | P.O. Box 957, Road Town, Tortola, British Virgin Islands. | US \$ 1 | Investment Business |
| K Laser China Group Holding Co., Limited | 2008/01/03 | 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. | RMB \$ 186,117 | Investment Business |
| iWin Technology Co., Ltd | 2005/03/22 | Jipfa Building, 3th Floor, Main Street, Road Town, Tortola, British Virgin Islands. | US \$ 6,430 | Investment Business |
| Finity Laboratories | 2001/11/16 | 922 San Leandro Ave., Suite D, Mountain View, California 94043 U.S.A.. | US \$ 700 | R&D of Holographic Technology |
| K Laser Technology (HK) Co., Ltd. | 2000/06/28 | No. 5, 1/F, Trust Centre, 912 Cheung Sha Wan Road, Kowloon, Hong Kong. | HK \$ 1,284 | Sales of Holographic Products |
| Holomagic Co., Ltd. | 2000/09/29 | Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands | RMB \$ 72,440 | Investment Business |
| Treasure Access Limited | 2007/11/28 | Unit 901, 9/F, Times Tower, 928-930 Cheung Sha Wan Road, Lai Chi Kok, Kowloon, Hong Kong. | RMB \$ 25,024 | Investment Business |
| WUXI K Laser Technology Co., Ltd. | 2000/12/29 | #60Segmen, Changjiang road Wuxi New District Zone, Wuxi Jiangsu, China. | RMB \$ 126,339 | Production and Sales of Holographic Products |
| HuNan HeRui Laser Technology Co., Ltd | 2009/11/19 | No.17, Nan'er Road, Xingsha Economic & Technical Development Zone, Changsha, Hu'nan, China | RMB \$ 51,800 | Production and Sales of Holographic Products |
| Top Band Investment Ltd. | 2007/09/13 | 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands. | RMB \$ 130,106 | Investment Business |
| Union Bloom Limited | 2007/11/28 | Unit 901, 9/F, Times Tower, 928-930 Cheung Sha Wan Road, Lai Chi Kok, Kowloon, Hong Kong. | RMB \$ 177,857 | Investment Business |
| DongGuan K Laser Technology Co., Ltd. | 2001/09/07 | Da Hsui Hu Area, Da Pian Mei Village, Daling Shang, Dong Guan City. | RMB \$ 165,621 | Production and Sales of Holographic Products |
| K Laser International Co., Ltd. | 2000/10/31 | Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands | US \$ 20,361 | Investment Business |
| K Laser Technology (USA) Co., Ltd. | 1993/02/18 | 3123 W. MacArthur Blvd. Santa Ana, CA ,USA. | US \$ 7,527 | Sales of Holographic Products |
| Amagic Technologies U.S.A. (Dubai) | 1996/12/03 | Jebel Ali Free Zone RA/08 VA-05 P.O.Box 61306 Dubai, UAE.. | AED \$ 913 | Sales of Holographic Products |
| K Laser Technology Japan Co., Ltd. | 2003/07/11 | 1-4-44, Atobehonmati, Yao City, Osaka Japan 581-0064 | JPY \$ 96,000 | Production and Sales of Holographic Products |
| K Laser Technology (Korea) Co., Ltd. | 2002/08/26 | 464-1 Hyeongok-Ri, Cheongbuk-Myeon, Pyeongtak-City, Gyeonggi-Province, Korea 451-831 | KRW \$ 3,385,200 | Production and Sales of Holographic Products |
| K Laser Technology (Thailand) Co., Ltd. | 1995/12/18 | 111/89 Moo 7 Bangchalong, Bangplee, Samutprakarn 10540, Thailand | THB \$ 112,200 | Production and Sales of Holographic Products |
| K Laser IMEA Co., Ltd. | 2003/07/03 | Suite 802, St James Court St Denis Street, Port Louis, Mauritius | US \$ 2,600 | Investment Business |
| Amagic Holographics India Private Limited | 2003/07/11 | B-74 Ambad MIDC Industrial Area, Ambad, Nashik 422010 | INR \$ 109,156 | Production and Sales of Holographic Products |
| Optivision Tech Inc. | 2004/07/14 | 3F,No. 1, Li Hsin Rd. VI, Science-Based Industrial Park, Hsinchu, Taiwan30078, R.O.C. | NT \$ 482,996 | Production and R&D of Optical Prism Film |
| Bright Triumph Limited | 2008/03/26 | Level 3, Alexander House, 35 Cybercity, Ebene,Mauritius | US \$ 7,914 | Investment Business |
| Ningbo Guangyao Optivision Technology CO.,Ltd. | 2008/05/28 | N0.6 West Road Lushan Bonded Southern District,Ningbo Free Trade Zone | RMB \$ 33,607 | Production of Optical Prism Film |
| Everest display Inc. | 2001/07/20 | 4F,No. 1, Li Hsin Rd. VI, Science-Based Industrial Park, Hsinchu, Taiwan30078, R.O.C. | NT\$ 164,000 | Projector manufacturing and sales |
| Guang Feng Internation Limited | 2005/3/31 | Portcullis TrustNet Chambers P.O.Box 1225 Apia, SAMOA | US\$ 6,821 | Investment Business |
| Insight Medical Solutions Inc. | 2015/4/23 | 4F,No. 1, Li Hsin Rd. VI, Science-Based Industrial Park, Hsinchu, Taiwan30078, R.O.C. | NT\$ 200,000 | R & D and sales of gastrointestinal endoscopy and other businesses |

| Entity | Date of Incorporation | Address | Capital | Main Operation or Business Items |
|---|-----------------------|--|--------------|--|
| Insight Medical Solutions Holdings Inc. | 2019/1/14 | 4F, No. 1, Li Hsin Rd. VI, Science-Based Industrial Park, Hsinchu, Taiwan 30078, R.O.C. | US \$ 750 | Investment Business |
| Insight Medical Solutions(WUXI) Inc. | 2019/8/23 | No. 35-107, Changjiang South Road, Xinwu District, Wuxi, China | RMB \$ 5,305 | R & D and sales of gastrointestinal endoscopy and other businesses |
| Insight Medical Solutions Inc. | 2019/1/18 | 9F.-5, No. 168, Sec. 2, Fuxing 3rd Rd., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.) | NT\$ 25,000 | sales of gastrointestinal endoscopy and other businesses |

1.1-3 Information Regarding Same Shareholders of Affiliated Companies Who Is Deemed to Have Control or Subject to Significant Influence : None

1.1-4 Directors, Supervisors, and Presidents of the Affiliated Companies

2019/12/31

| Entity | Title | Name of the Representation | Shareholding | |
|---|------------------------------|----------------------------|--------------|-------------|
| | | | Shares | Holding (%) |
| K Laser China Group Co., Ltd. (KLCN) | Director (K Laser) | Alex Kuo | 21,289,005 | 100% |
| Holoprint Co., Ltd. | Director (KLCN) | Alex Kuo | 1 | 100% |
| K Laser China Group Holding Co., Limited (KLCG) | Director (KLCN) | Alex Kuo | 102,901,766 | 100% |
| | Director (KLCN) | C. L. Kuo | | |
| | Director (KLCN) | Vincent Tsai | | |
| iWin Technology Co., Ltd | Director (K Laser) | Alex Kuo | 157,545 | 49% |
| | Director (KLCG) | Alex Kuo | 163,975 | 51% |
| Finity Laboratories | Director (iWin) | Alex Kuo | 700,000 | 100% |
| | GM | Michael T. limura | - | - |
| K Laser Technology (HK) Co., Ltd. | Director (KLCG) | Alex Kuo | 1,283,500 | 100% |
| | Director (KLCG) | Daniel Kuo | | |
| | GM | Winnie Chan | | |
| Holomagic Co., Ltd. | Director (KLCG) | Alex Kuo | 30,000 | 100% |
| Treasure Access Limited | Director (Holomagic) | Alex Kuo | 10,000 | 100% |
| WUXI K Laser Technology Co., Ltd. | Chairman (Treasure Access) | Daniel Kuo | - | 100% |
| | Director (Treasure Access) | Alex Kuo | | |
| | Director (Treasure Access) | C. L. Kuo | | |
| | Supervisor | Mark Chen | - | - |
| | VGM | Jack Lai | - | - |
| HuNan HeRui Laser Technology Co., Ltd | Chairman(Hosin Packaging) | NING SU | - | 51% |
| | Director (Hosin Packaging) | Zhi Wei Yi | | |
| | Director (Treasure Access) | C. L. Kuo | | |
| | Director (Treasure Access) | Alex Kuo | - | 49% |
| | Director (Treasure Access) | Daniel Kuo | | |
| | Supervisor (Hosin Packaging) | Wen Jie Huang | - | - |
| | VGM | Bao Lin Zhou | - | - |
| Top Band Investment Ltd. | Director (KLCG) | Alex Kuo | 50,000 | 100% |
| Union Bloom Limited | Director (TOP) | Alex Kuo | 10,000 | 100% |
| DongGuan K Laser Technology Co., Ltd. | Chairman (Union) | Daniel Kuo | - | 100% |
| | Director (Union) | James Kuo | | |
| | Director (Union) | C. L. Kuo | | |
| | Supervisor | Mark Chen | - | - |
| | VGM | Coger Ye | - | - |
| K Laser International Co., Ltd. | Director (K Laser) | Alex Kuo | 20,361,462 | 100% |
| K Laser Technology (USA) Co., Ltd. | Chairman (International) | Alex Kuo | 6,500,000 | 80% |
| | Director (International) | Daniel Kuo | | |

| Entity | Title | Name of the Representation | Shareholding | |
|--|--------------------------|--|--------------|-------------|
| | | | Shares | Holding (%) |
| | Director (Murata) | Shiro Murata | 1,625,000 | 20% |
| | Acting General Manager | Sammy Chen | - | - |
| | | | | |
| Amagic Technologies U.S.A (Dubai) | Chairman (International) | Alex Kuo | - | 100% |
| | Director & GM | Joseph Habchi | - | - |
| K Laser Technology Japan Co., Ltd. | Chairman (International) | Daniel Kuo | 1,344 | 70% |
| | Director (International) | Alex Kuo | | |
| | Director (International) | James Kuo | | |
| | Director | Shiro Murata | 576 | 30% |
| | Director & GM | Jun Murata | | |
| | Supervisor | Hiroaki Soejima | | |
| K Laser IMEA Co., Ltd. | Director (International) | Alex Kuo | 2,600,390 | 100% |
| K Laser Technology (Korea) Co., Ltd. | Chairman (International) | Daniel Kuo | 677,040 | 100% |
| | Director (International) | Alex Kuo | | |
| | Director | Teresa Huang | | |
| | Supervisor | Vincent Tsai | | |
| | GM | Jacky Chen | | |
| K Laser Technology (Thailand) Co., Ltd. | Chairman (International) | Alex Kuo | 9,277,984 | 83% |
| | Director (International) | Daniel Kuo | | |
| | Director | S. L. Yang | 202,998 | 2% |
| | Director | Jennifer Fwu | - | - |
| | Director & GM | Simon Fwu | 1,000,000 | 9% |
| K Laser IMEA Co., Ltd. | Director (International) | Alex Kuo | 2,600,390 | 100% |
| Amagic Holographics India Private Limited | Director (IMEA) | Alex Kuo | 10,915,954 | 100% |
| | Director | Daniel Kuo | | |
| | Director & GM | Joseph Habchi | | |
| Optivision Tech Inc. | Chairman & GM | Daniel Kuo | 420,937 | 1% |
| | Director (K Laser) | K Laser Technology Co., Ltd. | 22,086,420 | 46% |
| | Director | James Kuo | 32,039 | - |
| | Director | Ken Yuan | - | - |
| | Independent Director | Yuan-Shi Chiou | - | - |
| | Independent Director | Ruei-Dang Jang | - | - |
| | Independent Director | Mong-Ou Yang | - | - |
| | GM | Ken Yuan | 160,916 | - |
| Bright Triumph Limited | Director (Optivision) | Daniel Kuo | 7,913,767 | 100% |
| Ningbo Guangyao Optivision Technology Co.,Ltd. | Director (BTL) | Daniel Kuo | - | 100% |
| | GM | Chi-Di Hung | - | - |
| Everest display Inc. | Chairman (K Laser) | Alex Kuo | 13,022,334 | 79% |
| | Director (K Laser) | Daniel Kuo | | |
| | Director (K Laser) | Vincent Tsai | | |
| | Director (K Laser) | James Wei | | |
| | Director | H.T. Hong | - | - |
| | Supervisor | Lisa Hsu | 100,000 | 1% |
| Guang Feng Internation Limited | Director (Everest) | Alex Kuo | 6,820,810 | 100% |
| Insight Medical Solutions Inc | Chairman | Alex Kuo | 245,000 | 1% |
| | Chairman (K Laser) | Alex Kuo | 8,885,264 | 44% |
| | Chairman (K Laser) | Lisa Hsu | | |
| | Director | British Virgin Islands Shangderun Medical Biotechnology Holdings Limited | 3,200,000 | 16% |
| | Director | Gu Yun Chen | 343,000 | 2% |

| Entity | Title | Name of the Representation | Shareholding | |
|---|----------------|----------------------------|--------------|-------------|
| | | | Shares | Holding (%) |
| | Supervisor | Vincent Tsai | 131,000 | 1% |
| Insight Medical Solutions Holdings Inc. | Director (IMS) | Alex Kuo | - | - |
| Insight Medical Solutions(WUXI) Inc. | Director | Alex Kuo | - | - |
| Insight Medical Solutions Inc. | Chairman | Gu Yun Chen | 50,000 | 2% |
| | Director (IMS) | Alex Kuo | 2,000,000 | 80% |
| | Director (IMS) | James Wei | | |
| | Supervisor | Vincent Tsai | - | - |

1.1-5 Operating Highlights of the Affiliated Companies

Financial Status and Operating Results

Unit : NT\$ Thousands 2019/12/31

| Entity | Capital | Total Assets | Total Liabilities | Net Worth | Sales | Operating Income | Net Income (After Tax) | EPS (NT\$) (After Tax) |
|--|-----------|--------------|-------------------|-----------|-----------|------------------|------------------------|------------------------|
| K Laser China Group Co., Ltd. | 1,607,735 | 2,141,078 | - | 2,141,078 | - | (61) | 146,921 | 6.90 |
| Holoprint Co., Ltd. | - | - | - | - | - | - | - | - |
| K Laser China Group Holding Co., Limited | 801,233 | 2,161,519 | 12,081 | 2,149,438 | - | (15,145) | 140,894 | 1.37 |
| iWin Technology Co., Ltd | 192,783 | 37,210 | - | 37,210 | - | (12,745) | (13,130) | (40.84) |
| Finity Laboratories | 20,986 | 32,019 | 8,752 | 23,267 | 1,627 | (12,309) | (30) | (0.04) |
| K Laser Technology (HK) Co., Ltd. | 4,940 | 75,046 | 40,562 | 34,484 | 180,028 | (2,804) | 2,437 | 1.90 |
| Holomagic Co., Ltd. | 311,854 | 972,206 | 3,108 | 969,098 | 25,082 | (1,747) | 18,942 | 631.40 |
| Treasure Access Limited | 107,727 | 961,861 | 4,574 | 957,287 | - | (28) | 20,311 | 2,031.10 |
| WUXI K Laser Technology Co., Ltd. | 543,888 | 751,511 | 107,745 | 643,766 | 562,046 | 30,993 | 31,870 | N/A |
| HuNan HeRui Laser Technology Co., Ltd | 222,999 | 657,320 | 369,210 | 288,110 | 814,581 | 37,243 | 40,984 | N/A |
| Top Band Investment Ltd. | 560,105 | 1,141,529 | 68,635 | 1,072,894 | 354,018 | 33,160 | 140,149 | 2,802.98 |
| Union Bloom Limited | 765,676 | 1,078,540 | 22,251 | 1,056,289 | - | (24) | 132,125 | 13,212.50 |
| DongGuan K Laser Technology Co., Ltd. | 712,998 | 1,219,065 | 141,093 | 1,077,972 | 1,012,222 | 160,605 | 147,593 | N/A |
| K Laser International Co., Ltd. | 610,437 | 774,114 | 36,766 | 737,348 | 220,434 | 789 | 11,917 | 0.59 |
| K Laser Technology (USA) Co., Ltd. | 225,657 | 313,558 | 113,842 | 199,716 | 589,832 | 33,119 | 25,603 | 3.15 |
| Amagic Technologies U.S.A. (Dubai) | 6,284 | 103,048 | 39,069 | 63,979 | 112,460 | 6,657 | 6,326 | N/A |
| K Laser Technology Japan Co., Ltd. | 26,496 | 239,924 | 123,373 | 116,551 | 209,059 | 5,745 | 2,129 | 1,108.82 |
| K Laser Technology (Korea) Co., Ltd. | 88,692 | 75,423 | 14,219 | 61,204 | 89,242 | (2,656) | (2,848) | (4.21) |
| K Laser Technology (Thailand) Co., Ltd. | 113,300 | 397,267 | 52,769 | 344,498 | 226,397 | 24,627 | 20,596 | 1.84 |
| K Laser IMEA Co., Ltd. | 77,960 | 48,567 | 2,703 | 45,864 | 5,796 | (46) | (3,568) | (1.37) |
| Amagic Holographics India Private Limited | 75,193 | 45,313 | 1,117 | 44,196 | 22,464 | (5,581) | (3,538) | (0.32) |
| Optivision Tech Inc. | 482,996 | 1,244,851 | 506,937 | 737,914 | 1,285,462 | (4,954) | (19,279) | (0.40) |
| Bright Triumph Limited | 237,255 | 137,748 | - | 137,748 | - | - | 125 | N/A |
| Ningbo Guangyao Optivision Technology CO.,Ltd. | 157,620 | 187,088 | 111,551 | 75,537 | 317,342 | (447) | 90 | N/A |
| Everest display Inc. | 164,000 | 202,843 | 434,039 | (231,196) | 328,559 | (221,327) | (307,239) | (18.73) |

| Entity | Capital | Total Assets | Total Liabilities | Net Worth | Sales | Operating Income | Net Income (After Tax) | EPS (NT\$) (After Tax) |
|---|---------|--------------|-------------------|-----------|-------|------------------|------------------------|------------------------|
| Guang Feng Internation Limited | 204,488 | 33,339 | 6,868 | 26,471 | - | - | 46,733 | 6.85 |
| Insight Medical Solutions Inc | 200,000 | 376,650 | 18,422 | 358,228 | 1,965 | (61,214) | (23,360) | (1.17) |
| Insight Medical Solutions Holdings Inc. | 25,000 | 20,129 | 3,348 | 16,781 | 105 | (8,241) | (8,219) | (3.29) |
| Insight Medical Solutions(WUXI) Inc. | 236 | 24,528 | 2,506 | 22,022 | - | (826) | (819) | (34.77) |
| Insight Medical Solutions Inc. | 22,837 | 24,494 | 2,476 | 22,018 | - | (822) | (809) | (0.25) |

Exchange Rate :

\$ 1 USD=\$ 29.980 NT

\$ 1 EUR=\$ 33.59 NT

\$ 1 HKD=\$ 3.8490 NT

\$ 1 RMB=\$ 4.3050 NT

\$ 1 JPY=\$ 0.2760 NT

\$ 1 DHS=\$ 8.1970 NT

\$ 1 THB=\$ 1.0098 NT

\$ 1 KRW=\$ 0.0262 NT

\$ 1 INR =\$ 0.4222 NT

1.2 Consolidated Financial Statements: Please Refer to KLT's Consolidated Financial Statements.

2. Private Placement Securities in the Most Recent Years : None

3. K Laser Shares Held or Sold by its Subsidiaries :

Unit : NT\$ Thousands ; shares ; %

| Subsidiary name | Capital | fund source | Shareholding ratio | Get or Disposition date | Acquired shares Number and amount | Disposal of shares Number and amount | investment profit and loss | Number and amount of shares held as of the date of publication of the annual report | Set pledg e case | The company endorses the guarantee amount for the subsidiary | The amount of the company's loans and subsidia ries |
|--------------------------------|-------------------|-----------------|--------------------|---|-----------------------------------|--------------------------------------|----------------------------|---|------------------|--|---|
| Insight Medical Solutions Inc. | 200,000 thousands | private capital | 44% | - | - | - | | 2,750,000 shares 52,525 thousands | - | - | - |
| | | | | For the year ended as of the printing date of the annual report | - | 250,000 shares 4,613 thousands | | 2,500,000 shares 31,875 thousands | - | - | - |

4. Other Necessary Supplements : None

Major items to affect equity or stock price

Major Items to Affect Equity or Stock Price : None

本公司發言人及代理發言人

發言人姓名：黃千鳳

職 稱：財務長

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職 稱：經理

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總公司及工廠地址、電話

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電 話：(03)577-0316

股票過戶機構

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網址：www.gfortune.com.tw

電話：(02)2371-1658

最近年度財務報告簽證會計師

簽證會計師：徐文亞會計師/黃毅民會計師

事務所名稱：勤業眾信聯合會計師事務所

地 址：(110)台北市信義區松仁路100號20樓

網 址：www.deloitte.com.tw

電 話：(02)2725-9988

海外有價證券掛牌買賣之交易場所名稱及查詢該

海外有價證券資訊之方式：無

公司網址：www.klasergroup.com

Spokesman & Deputy Spokesman

Spokesman： Teresa Huang

Title： Chief Financial Officer

TEL： (03)577-0316

Email： klasergroup@klasergroup.com

Deputy Spokesman: Lisa Hsu

Title： Manager

TEL： (03)577-0316

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Headquarter Factory

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Securities Dealing Institute

Grand Fortune Securities Co., Ltd

Address：6F, No.6, Sec. 1, Zhongxiao W. Rd., Zhongzheng Dist.,
Taipei City 10041, Taiwan, R.O.C.

Website Address: www.gfortune.com.tw

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11073, Taiwan, R.O.C.

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TEL：(02)2725-9988

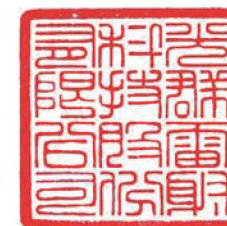
Exchangeable Bond Exchange Marketplace

Marketable Security: None

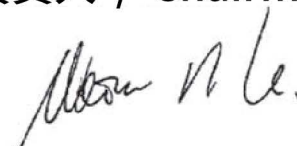

Company Website Address:

www.klasergroup.com

光群雷射科技股份有限公司
K LASER TECHNOLOGY INC.



負責人 / Chairman：郭維武 / Alex Kuo

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