TWSE: 5388

Sercomm Corporation Annual Report 2019

Contents

I. Letter to Shareholders

Dear shareholders,

In 2019, the international business environment was adversely affected by the US-China trade negotiations, and the overall business growth was challenging. In response to this environment, Sercomm was proactive in transforming our operations. We have increased the proportion of direct sales to telcos and service providers, which has enabled us to expand our global footprints and achieve better operational performance. Sercomm consolidated net sales for 2019 was NT$ 31.8 billion with the operating profit reaching NT$990 million. Net income before tax was NT$1.28 billion and net income attributable to owners of parent was NT$1.03 billion, which represent a year-over-year increase of 24% and 28%, respectively. Based on 246 million weighted average shares, earnings per share (EPS) for year 2019 were reported as NT$4.21.

In the challenging economic situations in 2019, Sercomm actively expanded its global footprints of production sites. In addition to the original plant in Suzhou, the Zhunan plant in Taiwan has been expanded. Furthermore, new plant in the Philippines has also been established to support the growing demand in business. Thus, our overall capacity has been improved to meet future customer requirements. Sercomm has been striving to reach out to various international markets, as part of its accelerated globalization strategy. We are exploring opportunities in Japan and other emerging markets, such as Latin America, Southeast Asia and India. While upholding our core values of solid system intergation capabilities, we have not only received positive feedback from customers but also become the global partner with telcos and service providers. In addition, Sercomm has been actively investing in cutting-edge technologies, such as Small Cells, Smart Medical, M-IoT (Mobile IoT) applications, etc. Simultaneously, the Company actively participated in international exhibitions and engaged with global telecommunication customers.

As a global corporate citizen, while pursuing its growth trajectory, Sercomm is also prioritizing the development of corporate governance and corporate social responsibility. We are working with our suppliers and partners to implement sustainable practices for the environment, and the "Corporate Social Responsibility Report" published in 2019 has been recognized internationally, which demonstrates Sercomm's commitment to sustainable development practices. Sercomm has achieved international recognition in corporate governance and has been awarded the "Best Small Cap Company" and the "Best Technology Hardware & Equipment Companies" by Asiamoney Magazine for the last four consecutive years. Sercomm is the only Company in Taiwan networking industry who receives the international recognition. Furthermore, the Company has qualified to be in the top 20% of the listed companies in the "Corporate Governance Evaluation" of the Taiwan Stock Exchange.

For 2020, we are excited about the new era of the 5G mobile broadband technology. Sercomm has accumulated experience over the years in developing new technologies in broadband and telecommunications. We have developed pioneering solutions and continue to expand globally while launching high-value products in order to improve our competitive advantage. In a highly globalized market, the management team at Sercomm will continue to strengthen our research and development, focus on core businesses, drive transformational changes and produce excellent operating results to enhance long-term interests of shareholders, customers and employees and improve our corporate value..

James Wang

James Wang

President & CEO

Sercomm Corporation

II. Company Highlight

2.1 Review of 2019 Business Results

Unit: Thousand NTD

Item	2018	2019	Year on Year Change (%)
Wired Product	3,577,928	4,016,637	12.26%
Wireless Product	29,807,013	27,780,493	-6.80%
Total Revenue	33,384,941	31,797,130	-4.76%

2.2 Performance and Profitability Analysis

Item			2018	2019
Financial Structure	Debt over Equity (%)		70.00	70.68
	Long-term Funds to Fixed Assets Ratio (%)		224.83	351.21
Liquidity Analysis	Current Ratio (%)		117.63	136.84
	Quick Ratio (%)		85.20	97.03
Profitability	Return on Assets (%)		3.77	4.49
	Return on Equity (%)		11.92	14.09
	To Paid-in Capital (%)	Operating Income	36.66	39.63
		Pretax Income	41.95	51.31
	Profit Margin (%)		2.54	3.25
	Earning per Share(NTD)		3.32	4.21

2.3 Research and Development Status

With the R&D strength accumulated over the years, Sercomm has successfully mastered the key technologies and market developments in the telecom broadband industry. We offer a full range of products covering different market areas, such as residential, enterprise, telecommunications, security monitoring, and cloud applications, providing customers with integrated design services involving broadband products. Our mainstream products include Integrated Access Devices (IAD), Enterprise Products, FTTx Products, Cable DOCSIS 3.x Products, Small Cell, and Smart IoT Solutions, all of which are leaders in their respective genres.. Our customers include first-tier telecom operators in Europe, the US, and emerging markets. Sercomm not only enhances the added value of hardware products with excellent software integration technology, but also invests R&D resources and works with customers in the early stage of design for many new technologies and products based on our commitment and responsibility toward our customers. At the same time, we strive to optimize efficiency and quality in manufacturing, quality control, and customer service, thereby comprehensively improving customer satisfaction.

In response to the new era of digital convergence, Sercomm will continue to engage in innovation and R&D, actively expand our global footprint, and integrate new broadband technologies into a wide variety of applications. We are committed to creating value differentiation and improving Sercomm's competitiveness through the blue ocean strategy, thus creating a brand new corporate value.

2.4 Summary of 2020 Business Plan

(1) Business Direction

1. Deliver high performance in management to maintain the Company's high rate of growth and solid profitability.
2. Actively develop all kinds of specialized servers, maintain technical leadership and emphasize long-term cultivation of personnel.
3. Strengthen quality of service, continue the optimization of work processes and improve overall operational efficiency.
4. Consolidate existing gains in the Emerging markets while actively developing our distribution channels in other regions to establish a global distribution network.
5. Focus on cost and quality control while expanding our production capability to meet market demand.

(2) Projected Sales and Basis

Looking back on 2019, Sercomm actively carried out operations transformation by optimizing our product portfolio, thus successfully increasing the added value of our products and offering complete customized solutions. Sercomm's full range of products includes broadband devices, enterprise products, telecommunications access devices, smart IoT, cloud applications, and other market areas. We have now become a key technical partner with telecom operators all over the world.

With the international operations development, Sercomm actively responded to the US-China tensions and formulated relevant strategies to meet customer needs by flexibly allocating production capacity in Suzhou, Taiwan and the Philippines, and further optimizing automated manufacturing processes. In addition, Sercomm continued to expand into the global market, and added operating locations in Europe, Latin America and emerging markets to service local customers and provide technical support.

The global economy will face various challenges due to the COVID-19 pandemic in 2020. With strong demand for 5G-related equipment construction and broadband upgrade, Sercomm remains optimistic about the overall outlook. Sercomm continued to invest in new technology sectors while taking a leading position in telecom sectors. Furthermore, we assist customers in expanding market opportunities, thus further injecting momentum into our operations in the future.

(3) Major Production and Marketing Policies

1. Carry out sound production and target management while improving production processes.
2. Closely monitor the quality and delivery times of key components as well as supply-and-demand and changes in pricing.
3. Dedicate resources to the development of new products and expand existing product ranges to quickly meet market demand.
4. Actively expand our marketing network and form strategic alliances with brand partners and telecom operators.
5. Strengthen sales management, consolidate market niches and expand developing markets.
6. Stay fully up-to-date on market distribution channels and demand. Strengthen collection of market intelligence.
7. Boost Sercomm's industry profile, establish a sound market reputation and provide high-quality service.
8. Continue to carry out production cost reduction plans to make products more price competitive.
9. Enrich the properties and regions of our clients to avoid the risk of over-concentration.

2.5 Future Development Strategy

1. Expand the Company's market value to benefit shareholders and employees.
2. Pay attention to intellectual property and cultivate outstanding personnel.
3. Strengthen technology research and development.
4. Improve market position and become the market leader.
5. Increase operational income and maximize profitability.

2.5.1 The Effects of External Competition, Regulation and the Overall Business Environment

Networking equipment suppliers revealed that the deployment of 5G networks has shown signs of slowing down. However, the slowdown observed in multiple markets is not caused by the same factor but different ones instead. According to the Wall Street Journal (WSJ), 5G networks require multiple base stations and relay stations, thus requiring huge investments. According to the research firm Gartner, 5G infrastructure spending was US$2 billion in 2019, more than three times in 2018. However, the spending is expected to slowdown to approximately US$4 billion in 2020.

South Korea boasts a leading position in 5G deployment. However, some telecom operators have slowed down their pace in 5G investment since the first half of 2019. South Korea's main 5G equipment supplier Samsung Electronics revealed in January that its domestic 5G business will decline in 2020. Because some cities and towns oppose the massive number of 5G antennas, the launch of 5G networks in the US has been slowed than expected. Some cities have prohibited the deployment of antennas in residential areas, while some cities have filed a lawsuit against the Federal Communications Commission (FCC) for requiring all cities to approve the deployment of 5G antennas within 60 or 90 days. In Europe, some deployments have also been delayed as governments are yet to complete the 5G spectrum allocation. China has installed 130,000 5G base stations at the end of 2019. Based on China's plan, the country was originally expected to install another 400,000 base stations in 2020. In the short term, the COVID-19 pandemic will definitely affect 5G deployment in the country throughout the entire year. Furthermore, mobile phone manufacturers have delayed the launch of 5G smartphones as they have lost a great stage for promoting their products in the Mobile World Congress (MWC).

Taiwan has completed the first round of 5G bidding, which included three frequency bands, i.e. 1800MHz, 350MHz, and 2800MHz. The winning operators were five mobile communications companies (Chunghwa Telecom, Taiwan Mobile Telecom, Far Eastone Telecom, Taiwan Star Telecom, and Asia Pacific Telecom). The total bid for the first phase of 5G bidding far exceeded the NT$44 billion target set by the National Communications Commission (NCC), with the unit acquisition value breaking the world record.

Yet, not every telecommunication carrier is slowing down. AT&T revealed that their 5G network has covered 50 million people and is expected to cover the entire US in the second quarter. Meanwhile Verizon's CEO also estimated rapid growth in their 5G network, but such growth will be even more obvious in 2021.

From the upstream chip sector to the downstream service and product sectors have raised doubts whether 5G rollout in 2020. The only good news is that some cities in China already have 5G services. People are able use 5G in live telemedicine, entertainment, public security, remote office, and online education during the COVID-19 pandemic. Hence, we can expect a good prospect of 5G in mid and long term.

In the macro environment, IHS Markit reported the following on March 17, 2020:

I. Economic growth

(I) Global: Global economic growth has been revised downward to 0.7% (originally 2.5%) this year as the COVID-19 pandemic has resulted in a significant slowdown in global demand, impacted supply chains, international trade, and tourism, as well as caused stock markets to fall, thus severely affecting the global economy.

(II) The US: US economic growth has been revised downward to -0.2% (originally 2.1%) this year as the US has declared a state of emergency nationwide, which may have an increasingly severe impact on its economy in the future, leading to a sharp contraction in private consumption and investments.

(III) Eurozone: The Eurozone economic growth has been revised downward to -1.5% (originally 0.9%) this year as an increasing number of countries in this zone have implemented border control measures to prevent and control the pandemic, which will seriously economic activities.

(IV) Japan: Japan's economic growth has been revised downward to -0.8% (originally 0.5%) this year as many large-scale activities have been scaled down, postponed or canceled due to the COVID-19 pandemic.

(V) China: China's economic growth has been revised downward to 3.9% (originally 5.4%) this year as the Chinese government has implemented strict isolation control measures, which have severely impacted the performance of retail sales, exports and fixed investments.

II. Annual global commodity export growth: It has been revised downward to -2.4% (originally 1.9%) due to further deterioration of the already weak international trade caused by the COVID-19 pandemic.

III. Main economic indicators in Taiwan

(I) Economic growth: It has been revised downward to 1.0% (originally 2.1%) this year due to the impact of the COVID-19 pandemic on the global economy, which is feared to also affect private consumption and trade in Taiwan.

(II) Annual commodity export growth: It has been revised downward to 1.6% (formerly 3.5%) this year due to the continuous spread of the COVID-19 pandemic, resulting in a decline in global demand and affecting Taiwanese exports.

(III) Annual CPI growth: It has been revised downward to 0.5% (originally 0.9%) this year, reflecting the recent slowdown in international crude oil and other commodity prices.

(IV) Unemployment: It has been revised upward to 3.9% (originally 3.8%) this year as most industries have been negatively affected by the COVID-19 pandemic, which may lead to employee severance and dismissals.

All in all, in the face of various economic uncertainties and the impact of the COVID-19 pandemic, Sercomm will continue to run our operations prudently and pragmatically, review the impact on operations, and formulate the necessary response measures to achieve our operational goals.

III. Company Overview

3.1 Recent Achievements

Date of Establishment: July 29, 1992

2019

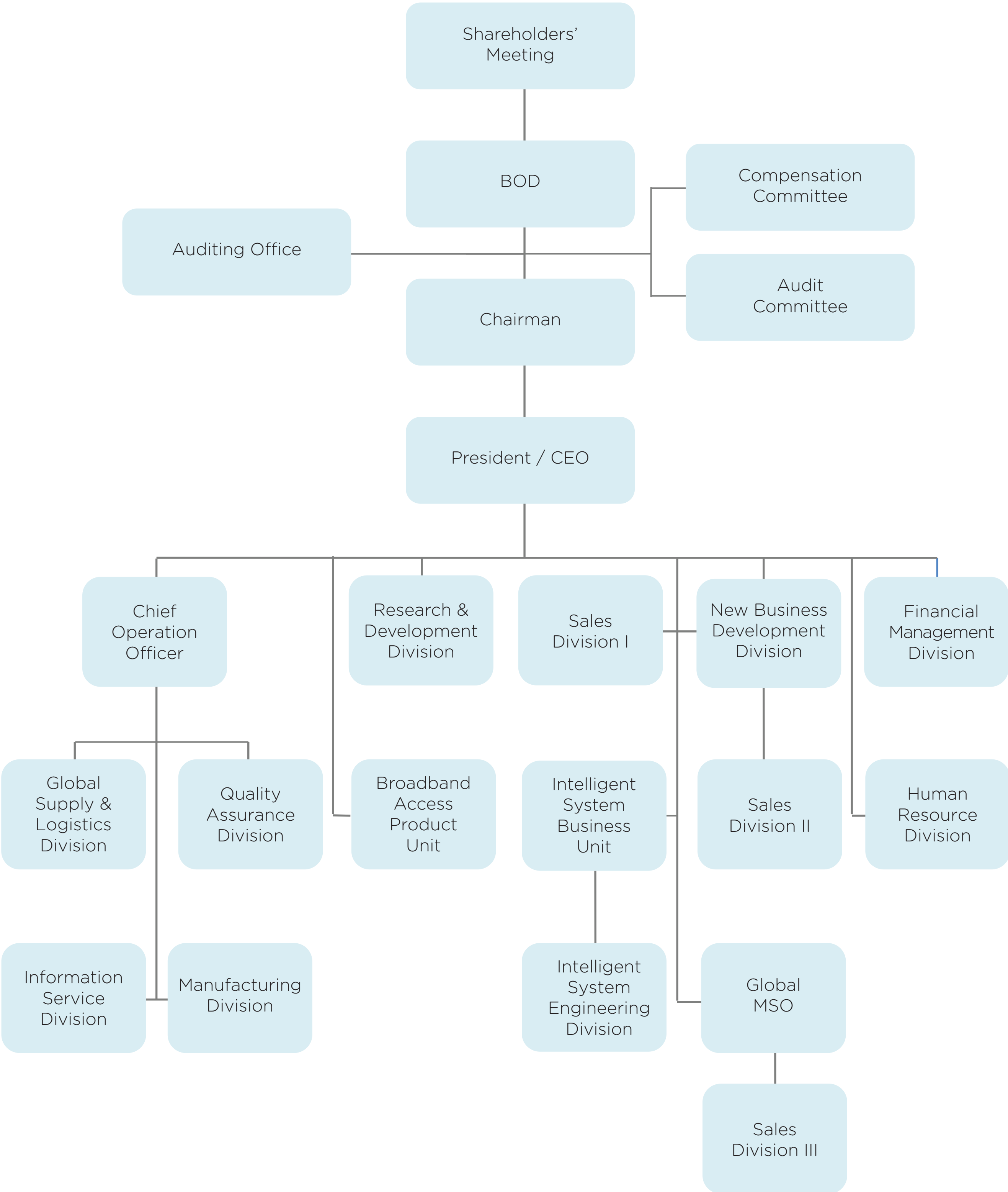
- Participated in “2019 International CES” and displayed full range of AIoT and M-IoT products
- Awarded by European Operator as “Supplier Awards - Outstanding Contribution”
- Announced the World's First Smart Home Small Cell together with America Mobile Operator and recognized in 2019 CES Innovation Award
- Participated in “Mobile World Congress 2019” and demestrated 5G Access, Mobile IoT, Private LTE Network Solution
- Announced the World's First Virtualized Small Cell together with Japanese Mobile Operator
- Awarded by leading Semiconductor Company as “Outstanding Business Achievement Award”
- Ranked in top 20% in Corporate Governance Evaluation of Listed Companies by Taiwan Stock Exchange
- Announced the World's First Smart Home Small Cell together with U.S. Wireless Carrier
- Published CSR report with ISAE 3000 Assurance
- Awarded by Asiamoney Magazine as:
  "Most Outstanding Company in Taiwan–Small Caps Sector"
  "Most Outstanding Company in Taiwan–Technology Hardware & Equipment Sector"
- Participated in “Broadband Forum 2019” and showcased next generation Multi-Gigabit products

2020

- Recognized by Joint Audit Cooperation (JAC) for meeting JAC audit process performance targets

3.2 Organization

3.2.1 Organization Chart



3.2.2 Major Corporate Functions

Department	Main Responsibilities
President Office	Drafting, planning, implementation and monitoring of Company operation plans
Research & Development Division	New Product Research and Development and drafting, planning and implementation for technical blueprints.
Broadband Access Product Unit	Product development project operation, customer services and support etc.
Global MSO	Sales promotion and operation, customer services and support etc.
Sales Division I	Sales promotion and operation, customer services and support etc.
Sales Division II	Sales promotion and operation, customer services and support etc.
Sales Division III	Sales promotion and operation, customer services and support etc.
New Business Development Division	New business promotion and operation, customer services and support etc.
Intelligent System Business Unit	IP Surveillance's sales promotion and operation, customer services and support etc.
Intelligent System Engineering Division	Research and development on Intelligent related products, product operation and product planning
Global Supply & Logistics Division	Production material planning, procurement, management and inventory control.
Manufacturing Division	All product QA-related work, including production implementation, product testing and machine maintenance. Production control, property management and material procurement etc.
Quality Assurance Division	Planning, promotion, implementation and monitoring of quality control procedures
Finance Management Division	Finances and accounting, legal and stock-related operations
Human Resources Division	Creating strategic human resources systems and solutions, including recruitment, salaries and bonuses, professional development, performance management and providing general HR services
Information Service Division	Network management, information system importation, planning, operation and monitoring
Auditing Office	Auditing, maintenance and improvement of internal control systems, offering recommendations and assisting in creating solutions for issues faced by other departments, including improving operations and efficiency.

3.3 Board Members

3.3.1 Information Regarding Board Members

As of April 17, 2020

Name / Position	Nationality	Date Elected	Gender	Yrs	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
						Shares	%	Shares	%	Shares	%		
Paul Wang Chairman, Representative of Pacific Venture Partners Co. Ltd.	Taiwan	2019.6.12	Male	3	2004.6.11	3,671,926	1.51	3,671,926	1.49	0	0.00	Carnegie Melon University, PhD in Physics Chairman of Sercomm Corporation	Note 1
Lu, Shyue-Ching Director, Representative of Yun Zhou Investment Co., Ltd.	Taiwan	2019.6.12	Male	3	2019.6.12	3,090,000	1.26	3,090,000	1.24	0	0.00	University of Hawaii, Ph.D in Electric Engineering Former Chairman of Chunghwa Telecom Co.	Note 2
James Wang Director, President Representative of Zhuo Jian Investment Co., Ltd.	Taiwan	2019.6.12	Male	3	2013.6.20	4,197,094	1.71	4,197,094	1.69	0	0.00	Harvard Business School, MBA Carnegie-Melon University, ME President of Sercomm Corporation	Note 3
Ben Lin Director, Executive VP. Representative of Zhen Bang Investment Co., Ltd.	Taiwan	2019.6.12	Male	3	2019.6.12	1,756,000	0.71	1,756,000	0.71	0	0.00	National Tsing Hua University, MS Director of IBM Subsidiary	Note 4
Shih, Chin-Tay Independent Director	Taiwan	2019.6.12	Male	3	2013.6.20	0	0.00	0	0.00	0	0.00	Princeton University, PhD in Electrical Engineering Stanford University, MS in Management Science and Engineering Dean of the College of Technology Management of National Tsing Hua University	Note 5

Name / Position	Nationality	Date Elected	Gender	Yrs	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
						Shares	%	Shares	%	Shares	%		
Steve K. Chen Independent Director	U.S.A	2019.6.12	Male	3	2014.6.17	0	0.00	0	0.00	0	0.00	Harvard University, PhD in Law Active Lawyer	Note 6
Rose Tsou Independent Director	Taiwan	2019.6.12	Female	3	2017.6.22	0	0.00	0	0.00	0	0.00	Northwestern University, Kellogg School of Management, MBA Boston University MS in Mass Communication Head of International, Verizon Media	Note 7

Note 1： Chairman and CEO of Sercomm USA Inc.; Director of Prosperity Dielectrics Co., Ltd., and Taiwan Cement Co., Ltd., ; Independent Director of UPC Technology Corporation

Note 2： Independent Director of MiTAC Holdings and Radium Life Tech Co., Ltd., Directors of CTCI ASI Corporation and XR Space

Note 3： Owner of Sercomm Trading Co. and Zealous Investments Ltd.; Chairman of Shukuan Investments Ltd., Zhuo Jian Investment Co., Ltd., Yun Zhou Investment Co., Ltd. and Servercom (India) Private Limited; Independent Director of Creative Sensor Inc.; Director of Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC. and Sercomm Technology Inc.

Note 4： Owner of Smart Trade Inc.; Director of Shukuan Investments Ltd., Sercomm USA Inc., Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC. and Sercomm Technology Inc.; Supervisor of Yun Zhou Investment Co., Ltd.

Note 5： Independent Director of Vanguard International Semiconductor Corporation and FocalTech Systems Co.,Ltd., Supervisor of TEN Incubation Corporation

Note 6： Executive Director of TriMax & Companies LLC and DNF Asset Management LLC; Director of Spatial Digital Systems Inc., StemBios Technologies, Inc. and Bloominous Inc.; Chairman of eGtran Corporation, EZconn Corporation, Oak Analytics Inc. and PhazrIO Inc.

Note 7： Chairman of World Vision Taiwan; Director of Hong Kong Television Entertainment Company Limited

3.3.2 Major Institutional Shareholders

April 17, 2020

Name of Institutional Shareholder	Primary Shareholder of Institutional Shareholder	Shareholding
Pacific Venture Partners Co. Ltd.	Su Yi	62.50%
	DaYuan Management Consulting Co. Ltd.	35.00%
Zhuo Jian Investment Co., Ltd.	An-Bang Lin	25.48%
	James Wang	17.34%
	Zhu-Xian Lin	12.33%
Yun Zhou Investment Co., Ltd.	James Wang	48.54%
	Ben Lin	29.13%
Zhen Bang Investment Co., Ltd.	Ben Lin	99.99%

3.3.3 Major Shareholders of the Major Shareholders that Are Juridical Persons Are Juridical Persons

April 17, 2020

Name of Juridical Persons	Major Shareholders of the Juridical Persons	Shareholding
DaYuan Management Consulting Co. Ltd.	Honesty Ventures Limited	75.00%
	5388 SUNRISE INC.	25.00%

3.3.4 Professional Qualifications and Independence Analysis of Directors and Supervisors

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience: An Instructor or Higher Position 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 Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	Independence Criteria(Note) 1	2	3	4	5	6	7	8	9	10	Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
Paul Wang Representative of Pacific Venture Partners Co. Ltd.			✓		✓				✓		✓	✓	✓	1
Lu, Shyue-Ching Representative of Yun Zhou Investment Co., Ltd.	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
James Wang Representative of Zhuo Jian Investment Co., Ltd.			✓			✓	✓	✓	✓		✓	✓	✓	1
Ben Lin Representative of Zhen Bang Investment Co., Ltd.			✓			✓	✓	✓	✓		✓	✓	✓	0
Shih, Chin-Tay	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Steve K. Chen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Rose Tsou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note：Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person 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 1% or more of the total number of outstanding 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 fifth 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 outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified Company or institution that has a financial or business relationship with the Company.
7. 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.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.3.5 Remuneration to Directors

Unit: Thousand NTD

Name / Position	Base Compensation (A)		Bonus to Directors (C)		Allowances (D)		Ratio of total remuneration to Net Income (%) A+C+D		Salary, Bonuses & Allowances (E)		Severance Pay (F)		Profit Sharing-Employee Bonus (G)				Ratio of Compensation to Net Income (%) A+C+D+E+F+G	
													Sercomm		Consolidated Subsidiaries			
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Cash Bonuses	Stock Bonuses	Cash Bonuses	Stock Bonuses	Sercomm	Consolidated Subsidiaries
Paul Wang Chairman and Subsidaries CEO, Representative of Pacific Venture Partners Co. Ltd.	0	0	10,330	10,330	36	36	1.00	1.00	1,400	4,280	0	0	0	0	0	0	1.14	1.42
James Wang Director, President Representative of Zhuo Jian Investment Co., Ltd.	0	0	4,132	4,132	36	36	0.40	0.40	7,000	9,880	192	192	7,405	0	7,405	0	1.82	2.09
Ben Lin Director, Executive VP. Representative of Zhen Bang Investment Co., Ltd.	0	0	4,132	4,132	36	36	0.40	0.40	3,850	6,940	66	66	4,443	0	4,443	0	1.21	1.51
Lu, Shyue-Ching Director, Representative of Yun Zhou Investment Co., Ltd.	0	0	4,132	4,132	36	36	0.40	0.40	0	0	0	0	0	0	0	0	0.40	0.40
Shih, Chin-Tay Independent Director Steve K. Chen Independent Director Rose Tsou Independent Director	7,200	7,200	0	0	96	96	0.71	0.71	0	0	0	0	0	0	0	0	0.71	0.71

Compensation Range	Name of Director			
	Total Amount A+C+D		Total Amount A+C+D+E+F+G	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries
NT$0 ~ NT$999,999				
NT$1,000,000 ~ NT$1,999,999				
NT$2,000,000 ~ NT$3,499,999	Shih, Chin-Tay; Steve K. Chen, Rose Tsou	Shih, Chin-Tay; Steve K. Chen, Rose Tsou	Shih, Chin-Tay; Steve K. Chen, Rose Tsou	Shih, Chin-Tay; Steve K. Chen, Rose Tsou
NT$3,500,000 ~ NT$4,999,999	James Wang-Representative of Zhuo Jian Investment Co., Ltd., Ben Lin-Representative of Zhen Bang Investment Co., Ltd., Lu, Shyue-Ching-Representative of Yun Zhou Investment Co., Ltd.	James Wang-Representative of Zhuo Jian Investment Co., Ltd., Ben Lin-Representative of Zhen Bang Investment Co., Ltd., Lu, Shyue-Ching-Representative of Yun Zhou Investment Co., Ltd.	Lu, Shyue-Ching-Representative of Yun Zhou Investment Co., Ltd.	Lu, Shyue-Ching-Representative of Yun Zhou Investment Co., Ltd.
NT$5,000,000 ~ NT$9,999,999				
NT$10,000,000 ~ NT$14,999,999	Paul Wang-Representative of Pacific Venture Partners Co. Ltd.	Paul Wang-Representative of Pacific Venture Partners Co. Ltd.	Paul Wang-Representative of Pacific Venture Partners Co. Ltd., Ben Lin-Representative of Zhen Bang Investment Co., Ltd.	Paul Wang-Representative of Pacific Venture Partners Co. Ltd.
NT$15,000,000 ~ NT$29,999,999			James Wang-Representative of Zhuo Jian Investment Co., Ltd.	James Wang-Representative of Zhuo Jian Investment Co., Ltd., Ben Lin-Representative of Zhen Bang Investment Co., Ltd.
NT$30,000,000 ~ NT$49,999,999				
NT$50,000,000 ~ NT$99,999,999				
Over NTD 100,000,000				
Total	7	7	7	7

3.4 Management Team

3.4.1 Information Regarding Management Team

As of April 17, 2020

Name / Position	Nationality	Gender	Elected Date	Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
				Shares	%	Shares	%		
James Wang CEO / President	Taiwan	Male	2000.01.24	881,006	0.35	0	0.00	Harvard Business School, MBA Carnegie-Melon University, ME President of Sercomm Corporation	Note 1
Ben Lin Executive VP.	Taiwan	Male	1992.07.29	488,201	0.20	736,896	0.30	National Tsing Hua University, MS Director of IBM Subsidiary	Note 2
Leo Chen VP	Taiwan	Male	2001.10.15	0	0.00	0	0.00	University of Illinois, MSA Director of Lite-On Group	Note 3
Jemmy Lee VP	Taiwan	Male	2002.04.24	240,000	0.10	0	0.00	Vice President of Proview Company China	-
Hawk Wu VP	Taiwan	Male	2007.03.01	348,000	0.14	0	0.00	Director of Quanta Computer Corp.	-
Colette Chen VP	Taiwan	Female	2013.02.01	164,000	0.07	0	0.00	Tamkang University, MS in European Studies Sales Manager of Veccom Co., Ltd.	-
Vicky Lin VP	Malaysia	Female	2013.02.01	385,000	0.15	0	0.00	National Taiwan University BS in Economics Sales VP of Ayecom Technology	-
Genevieve Lu VP	Taiwan	Female	2015.05.14	244,000	0.10	0	0.00	University of California, MBA Human Resources VP of Yahoo!	-

Name / Position	Nationality	Gender	Elected Date	Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
				Shares	%	Shares	%		
Dean Wang Senior VP	Taiwan	Male	2018.07.16	520,000	0.21	0	0.00	State University of New York, Dual M.S. Field of Study Mechanical Engineering & Management and Policy President of Foxconn (Shenzhen) Technology Group	
Winnie Hsieh Director Auditing Office	Taiwan	Female	2007.06.15	96,406	0.04	0	0.00	Tamkang University, BS in Finance and Banking Special Assistant of WeiTai Corp.	-

Note 1： Owner of Sercomm Trading Co. and Zealous Investments Ltd.; Chairman of Shukuan Investments Ltd., Zhuo Jian Investment Co., Ltd.,Yun Zhou Investment Co., Ltd. and Servercom (India) Private Limited; Independent Director of Creative Sensor Inc.; Director of Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC., and Sercomm Technology Inc.

Note 2：Owner of Smart Trade Inc.; Director of Shukuan Investments Ltd., Sercomm USA Inc., Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC., Sercomm Technology Inc. and Zhen Bang Investment Co., Ltd.; Supervisor of Yun Zhou Investment Co., Ltd.

Note 3：Director of Shukuan Investments Ltd., Owner of WeiYun Co., Ltd

3.4.2 Compensation of President and Vice President

Unit: Thousand NTD

Name / Title	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing-Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm		Consolidated Subsidiaries		Sercomm	Consolidated Subsidiaries
							Cash Bonuses	Stock Bonuses	Cash Bonuses	Stock Bonuses		
James Wang CEO/ President Ben Lin Executive Vice President Dean Wang Senior Vice President Leo Chen Vice President Jemmy Lee Vice President Hawk Wu Vice President Vicky Lin Vice President Colette Chen Vice President Genevieve Lu Vice President	23,081	27,617	1,180	1,180	10,705	14,355	*	0	*	0	3.39	4.17

*Note: The compensation for employees and directors has not yet been decided and cannot be estimated on April 30. 2020. The compensation for last year was NT$ 49,026,200.

Compensation Range	Name of President and Vice President	
	Sercomm	Consolidated Subsidiaries
NT$0 ~ NT$999,999		
NT$1,000,000 ~ NT$1,999,999		
NT$2,000,000 ~ NT$3,499,999	Leo Chen, Jemmy Lee, Vicky Lin, Genevieve Lu	Jemmy Lee, Vicky Lin, Genevieve Lu
NT$3,500,000 ~ NT$4,999,999	Ben Lin, Hawk Wu, Colette Chen	Leo Chen, Hawk Wu, Colette Chen
NT$5,000,000 ~ NT$9,999,999	James Wang, Dean Wang	Ben Lin, Dean Wang
NT$10,000,000 ~ NT$14,999,999		James Wang
NT$15,000,000 ~ NT$29,999,999		
NT$30,000,000 ~ NT$49,999,999		
NT$50,000,000 ~ NT$99,999,999		
Over NT$100,000,000		
Total	9	9

3.4.3 Employee Profit Sharing Granted to Management Team

Unit: Thousand NTD

Title	Name	Stock Bonus	Cash Bonus	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of 2018 Net Income
CEO/ President	James Wang	0	49,026	49,026	4.75%
Executive Vice President	Ben Lin				
Senior Vice President	Dean Wang				
Vice President	Leo Chen				
Vice President	Jemmy Lee				
Vice President	Hawk Wu				
Vice President	Vicky Lin				
Vice President	Colette Chen				
Vice President	Genevieve Lu				

*Note: The compensation for employees and directors has not yet been decided on April 30, 2020. The above compensation estimates are based on previous year.

3.4.4 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income

Title	2018		2019	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries
Directors Supervisors Presidents and Vice Presidents	7.33%	8.85%	6.45%	7.51%

	Directors / Supervisors	President / Vice President
1. Remuneration policy	Applied in accordance with Article 18 and 29 of the Articles of Incorporation	Applied in accordance with Regulations Governing the Salary and Remuneration, and the Implementation Rules for employees' performance evaluation.
2. Standards and combinations	Compensation for directors and supervisors, traveling expenses	Base salary, duty allowance, food allowance, employees bonus
3. The procedures for determining remuneration	Applied in accordance with the effective Articles of Incorporation after the resolution by the Annual Shareholders Meeting	Salaries are contracted by education, experience, and years of service, and approved by the Company's delegation of authorization.
4. Association of operational performance	Based on the Company's profits	Compensation was given by the rate of target completion, operational performance, and contributions.
5. Association of future risks	Fulfill duties of operation and supervision, and develop business policies turning a crisis into an opportunity	Enhance employees' coherence to achieve the goal of sharing profit and loss between employers and employees.

3.5 Corporate Governance

3.5.1 Board of Directors

The Board of Directors held 6 meetings in 2019. The attendance of Directors were as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Paul Wang Representative of Pacific Venture Partners Co. Ltd.	6	0	100	
Director	Lu, Shyue-Ching Representative of Zhuo Jian Investment Co., Ltd.	3	0	100	Change juristic-person on 2019/6/12
Director	James Wang Representative of Zhuo Jian Investment Co., Ltd.	3	0	100	Change juristic-person on 2019/6/12
Director	James Wang	3	0	100	Discharged on 2019/6/12
Director	Lu, Shyue-Ching Representative of Yun Zhou Investment Co., Ltd.	3	0	100	Elected on 2019/6/12
Director	Ben Lin	3	0	100	Discharged on 2019/6/12
Director	Ben Lin Representative of Zhen Bang Investment Co., Ltd.	3	0	100	Elected on 2019/6/12
Independent Director	Shih, Chin-Tay	6	0	100	
Independent Director	Steve K. Chen	5	1	83	
Independent Director	Rose Tsou	5	1	83	

Annotations:

1. (1) Securities and Exchange Act §14-3 resolutions

Date of Board Meeting	Resolution	Individual Directors' Opinions	Company's Response
2019.3.18	1. Terminate the private placement offering approved by 2018 shareholders' meeting 2. Amendment to the Operational Procedures for Acquisition and Disposal of Assets 3. Issuance of new common shares for cash or overseas/domestic convertible bonds in private placement 4. Evaluation on CPA independence 5. Investment of Hitron Technologies	None	1. None 2. Proposed to Shareholder Meeting 3. Proposed to Shareholder Meeting 4. None 5. None

2019.4.8	To release the non-competition restriction on managerial officers	None	Proposed to Shareholders Meeting
2019.8.13	1. Approval to make fund lending for Sercomm Russia LLC. 2. Approval to make fund lending for Sernet (Suzhou) Technologies Corporation	None	None
2019.11.8	Employee Stock Option Transfer and Issuing New Shares	None	Registered in the Ministry of Economy

(2) There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2019.

2. Recusals of Directors due to conflicts of interests in 2019：Directors recused themselves from the discussion and voting of their compensation resolution.

3. Performance evaluation of the Board of Directors:

Evaluation Cycle	Evaluation Period	Scope of Evaluation	Evaluation Method	Evaluation Content
Once a year	2019.1.1~ 2019.12.31	1. Board of Directors 2. Individual directors 3. Functional committees	Self-evaluation	Note*

4. Measures taken to strengthen the functionality of the Board:

(1) In order to implement the spirit of corporate governance, Sercomm fully discloses our business and financial information on corporate website, in our annual reports, and on the Market Observation Post System (MOPS), with a view to effectively improving information transparency.

(2) Sercomm has established the Audit Committee in 2018.

Note*

2019 Performance Evaluation of Board of Directors

Performance evaluation of Sercomm's Board of Directors in 2019 includes self-evaluation of the entire Board of Directors, individual directors, and functional committees. The evaluation report is shown as follows:

- Evaluation period: January 1, 2019 to December 31, 2019.
- Measurement items for the performance evaluation of the Board of Directors include the following five areas:
  I.Participation in the operation of the Company.
  II. Improvement in the quality of the Board's decision-making.
  III. Composition and structure of the Board.
  IV. Election and continuing education of directors.
  V. Internal control.
- Measurement items for the performance evaluation of individual directors include the following five areas:
  I.Understanding of the goals and missions of the Company.
  II. Awareness of the duties of directors.
  III. Participation in the operation of the Company.
  IV. Management of internal relationship and communication.
  V. Professionalism and continuing education of directors.
  VI. Internal control.

- Measurement items for the performance evaluation of functional committees include the following five areas:
  I.Participation in the operation of the Company.
  II. Awareness of the duties of functional committees.
  III. Improvement in the quality of decision-making by functional committees
  IV. Composition of functional committees, and election and appointment of committee members.
  V. Internal control.

- The Board of Directors and functional committees underwent performance evaluation separately, where evaluation results are divided into four grades: 90 points and above: excellent; 80 to 89 point: good; 70 to 79 points: standard; and 69 and below: improvement required.

- The results of the performance evaluation of the Board of Directors in 2019 are shown as follows:
  - The overall average score obtained during the self-evaluation of the Board of Directors' performance was 92 points (excellent).
  - The overall average score obtained during the self-evaluation of individual directors' performance was 97 points (excellent).
  - The overall average score obtained during the self-evaluation of functional committees' performance was 100 points (excellent).

The self-evaluation results for Sercomm's Board of Directors, individual directors and functional committees in 2019 were excellent, with no significant matters requiring improvement. The evaluation results are expected to be reported during the first Board of Directors' meeting in 2020 and serve as a reference for the performance, remuneration, and nomination for re-election of members of the Board of Directors and functional committees. In addition, starting this year, Sercomm shall hire an external professional independent institution or a team of experts and scholars to evaluate the performance of the Board of Directors once at least every three years.

3.5.2 Audit Committee

The Audit Committee aims to assist the Board of Directors in monitoring the quality and integrity of Sercomm's accounting, auditing and financial reporting processes and financial control.
The tasks of the Audit Committee mainly include the following:

1. Formulation or amendment of the internal control system in accordance with Article 14-1 of the Securities and Exchange Act.
2. Assessment of the effectiveness of the internal control system.
3. Adoption or amendment, in accordance with Article 36-1 of the Securities and Exchange Act, of 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.
4. Matters bearing on the personal interest of directors.
5. Material assets or derivatives trading.
6. Material loaning of funds, and provision of endorsements/guarantees.
7. Offering, issuance or private placement of any equity securities.
8. Appointment, discharge or compensation of attesting CPAs.
9. Appointment or discharge of a finance manager, accounting manager or head of internal audit.
10. Annual financial statements signed or stamped by the Chairman, managerial officers, and account manager, and second-quarter financial statements audited and attested by CPAs.
11. Other significant matters set forth by the Company or the competent authority.

The Audit Committee held 4 meetings in 2019.

The attendance of Independent Directors were as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Steve K. Chen	4	0	100	
Independent Director	Shih, Chin-Tay	3	1	75	
Independent Director	Rose Tsou	3	0	75	

Annotations:

1. (1) Securities and Exchange Act §14-5 resolutions

Date of Board Meeting	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
2019.3.12	1. Ratification of 2018 Internal Control System Statement 2. Amendment to the Operational Procedures for Acquisition and Disposal of Assets 3. Issuance of new common shares for cash or overseas/domestic convertible bonds in private placement 4. Evaluation on CPA independence	None
2019.8.13	1. Approval to make fund lending for Sercomm Russia LLC. 2. Approval to make fund lending for Sernet (Suzhou) Technologies Corporation	

(2) There was no other resolutions which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2019.

2. If there are Individual Directors' avoidance of motions in conflict of interest, the Individual Directors' names, contents of motion, causes for avoidance and voting should be specified : None

3. Descriptions of the communications between the Independent Directors, the Internal Auditors, and the Independent Auditors in 2018 (which should include the material items, channels, and results of the audits on the corporate finance and/or operations, etc.) :

(1) 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 2018, the Company's independent auditors did not report any irregularity.

Meeting Dates	Communications between the Independent Directors and the Independent Auditors
2019.3.18	1. Reviewing the 2018 financial statement, audit scope, key audit matter, journal entry adjustment 2. Reviewing regulatory developments 3. Reviewing CPA Independent Assurance Report 4. Communicating the matters to the audit committee
2019.5.3	1. Reviewing the 2019 Q1 financial statement, audit scope, key audit matter, journal entry adjustment 2. Reviewing regulatory developments 3. Reviewing CPA Independent Assurance Report 4. Communicating the matters to the audit committee
2019.8.13	1. Reviewing the 2019 Q2 financial statement, audit scope, key audit matter, journal entry adjustment 2. Reviewing regulatory developments 3. Reviewing CPA Independent Assurance Report 4. Communicating the matters to the audit committee
2019.11.8	1. Reviewing the 2019 Q3 financial statement, audit scope, key audit matter, journal entry adjustment 2. Annual audit plan discussion 3. Reviewing regulatory developments 4. Reviewing CPA Independent Assurance Report 5. Communicating the matters to the audit committee

(2) 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.

Meeting Dates	Communications between the Independent Directors and the Independent Auditors
2019.3.18	1. Reviewing the result of auditing review for 2018 2. Reviewing the Internal Control System Statements for 2018
2019.5.10	1. Reviewing the result of auditing review for 2019 Q1
2019.8.13	1. Reviewing the result of auditing review for 2019 Q2
2019.11.8	1. Reviewing the result of auditing review for 2019 Q3 2. Reviewing and approving the 2020 Internal audit plan

3.5.3 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
1. Does Company follow "Taiwan Corporate Governance Implementation" to establish and disclose its corporate governance practices?		V	Sercomm has not yet defined a "Corporate Governance Code of Practice".	Not regulated
2. Shareholding Structure & Shareholders' Rights (1) Does Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly?	V		Sercomm has set up an investor relations department to deal with shareholder issues. Furthermore, there are investor relations section and stakeholders' engagement section on the Company website that provide links to each relevant business department for investors' and shareholders' references.	None
(2) Does Company possesses a list of major shareholders and beneficial owners of these major shareholders?	V		Sercomm keeps track of the shareholding conditions of the directors, supervisors, managers and shareholders who possess more than 10% of the Company's shares at any time.	None
(3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	V		Sercomm and its subsidiaries formulate relevant management measures according to relevant provisions.	None
(4) Has the Company established internal rules prohibiting insider trading on undisclosed information?	V		Sercomm has established Procedures for Handling Inside Information Material.	None
3. Composition and Responsibilities of the Board of Directors (1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?	V		Selection guidelines for the Company's directors: The candidates for directors should be nominated, and the review criteria and procedures for the candidates will be fully disclosed at MOPS. The selected directors should have diversified professional backgrounds, experience, and excellent vision. Also, guidelines are being formulated for diversified membership of the board of directors, considering the organization culture, business model and long-term development. With total seven directors of the Company,	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			each directors' hold professional backgrounds compose the board of directors of the Company, which includes professors, CPAs, lawyers and industry leaders. Currently, there are three independent directors (including one female director), and one of the directors is located in the United States. The number of directors who have no managing responsibility in this Company is up to half of the board of directors.	
(2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?		V	Sercomm's Compensation Committee consists of four members, including Hilo Chen and three independent directors, Chin-Tay Shih, Steve K. Chen and Rose Tsou. The meeting shall held at least one regular meeting each quarter. Audit Committee consists of three independent directors,Steve K. Chen, Chin-Tay Shih and Rose Tsou. The meeting shall held at least one regular meeting each quarter.	None
(3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis, reported the results of performance to the Board of Directors, and use the results as reference for directors' remuneration and renewal?	V		The Company has established the "Regulations Governing Performance Evaluation of Board of Directors" based on the resolution adopted by the Board of Directors. Beginning 2019, all the members of the Board shall evaluate the overall operation of the Board of Directors every year. The methodology and results of performance evaluation shall be disclosed on Sercomm's website. In addition to the overall operation of the Board of Directors, Sercomm also carries out evaluation on individual directors. The results of the performance evaluation of the Board of Directors in 2019 are shown as follows: • The overall average score obtained during the self-evaluation of the Board of Directors' performance was 92 points (excellent). • The overall average score obtained during the self-evaluation of individual directors' performance was 97 points (excellent). • The overall average score obtained during the self-evaluation of functional committees' performance was 100 points (excellent). The self-evaluation results for Sercomm's Board of Directors, individual directors and functional committees in 2019 were excellent, with no significant matters	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			requiring improvement. The evaluation results are expected to be reported during the first Board of Directors' meeting in 2020 and serve as a reference for the performance, remuneration, and nomination for re-election of members of the Board of Directors and functional committees. In addition, starting this year, Sercomm shall hire an external professional independent institution or a team of experts and scholars to evaluate the performance of the Board of Directors once at least every three years.	
(4)Does the Company regularly evaluate its external auditors' independence?	V		The Board of Directors evaluates the independence of external auditors annually. The evaluation was approved by the Board meeting on 03/18/2020. The accountants of PricewaterhouseCoopers (PwC) through our evolution have met the standard of independence and no conflicting interests with the Company. Please refer *note 1* for the Assessment of Accountant's Audit independence and Eligibility.	None
4. Does the Company appoint competent and appropriate corporate governance personnel and corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors, assisting directors' compliance of law, handling matters related to board meetings and shareholders' meetings according to law, and recording minutes of board meetings and shareholders' meetings)?	V		The Investor Relations Department of the Company is responsible for corporate governance. Their responsibilities include: concentrating on shareholders' interests, integrating the rules and systems regarding corporate governance from various departments to ensure full information disclosure, conducting corporate briefings and symposia on business performance, participating in investment forums occasionally, and maintaining a proper communication channel with investors. Besides, the Financial Accounting Department is the unit of the board of directors meetings and provides the information needed by the directors and supervisors used in conducting their business, and also prepares the most updated regulatory developments related to Company operation in order to assist the directors and supervisors in regulatory compliance.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
5. Has the Company established a means of communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	V		Sercomm has a stakeholders' engagement section on the Company website to address our corporate social responsibilities and any other issues. Moreover, the Company provides investor relations, customer and corporate social responsibility related department communication channels for stakeholders.	None
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	V		The Company has appointed Taishin International Bank Stock Affairs Division to deal with shareholder affairs.	None
7. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?	V		Sercomm has set up a Chinese/English website (http://www.Sercomm.com) to disclose the information regarding the Company's financials, business and corporate governance status.	None
(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investor's conference etc.)?	V		In addition to the spokespersons and investor relations department, the Company's website contains Company information in both Chinese and English. The website is maintained and updated by dedicated personnel. The Company also provides related information in the Market Observation Post System according to the regulations, and holds regular investor conferences to report the Company's operational status.	None
(3) Does the Company announce and report the annual financial statements 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?		V	Sercomm declares our financial statements and monthly operating status according to the dates stipulated in the "List of Matters Required to Be Handled by Issuers of Listed Securities." Sercomm has yet to announce and declare annual financial statements within two months after the end of the fiscal year, as well as to make such announcements earlier than the prescribed period.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	V		• Employee rights and employee care: Sercomm firmly believes that "talent" is the key to maintaining our core competitiveness. Hence, Sercomm spares no effort to train and nurture employees, while strictly complying with various labor laws and regulations and the Electronic Industry Citizenship Coalition (EICC) Code of Conduct. In addition to actively recruiting talents in the area of science and technology, Sercomm also invests considerable resources and funds every year to provide the best working environment and endeavor to enhance employees' professional knowledge and skills, in hopes of creating a "growth-enabling and healthy" working environment, so that all our colleagues can receive physical and mental care and feel a sense of accomplishment, as well as maximize their potential and growth from work, thereby promoting the sustainable development of the Company. • Investor relations and stakeholders' rights: Sercomm maintains smooth communication channels at all times and adheres to the principle of ethics by disclosing public information immediately so as to protect investor relations and stakeholders' rights. • Supplier relations and implementation of customer policies: Sercomm has long been actively working with customers and suppliers to build a sustainable supply chain and jointly develop eco-friendly green products through regular audit and counseling. Sercomm not only requires suppliers in all countries to fully comply with all local laws and regulations, but is also concerned about the management of labor rights, environmental protection, safety and health risks in the supply chain. • Continuing education among directors: All of Sercomm's directors possess the relevant professional knowledge. Every year, Sercomm organizes corporate governance-related courses for directors from time to time, which has been disclosed on MOPS. • Implementation of risk management policy and risk measurement criteria: Sercomm has established the relevant regulations for important management indicators and implement them	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			according thereto. • Purchase of liability insurance for directors: Sercomm has purchased liability insurance for directors and has reported the insured amount, coverage, and premiums of the directors' liability insurance.	

9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange:

Sercomm was ranked on 6%~20% in Corporate Governance Evaluation in 2019.

- Situations improved: Enhancing the structure and operation of the Board of Directors - Sercomm has disclosed the status of communications between independent directors, the head of internal audit, and CPAs, as well as the information security risk management structure on our corporate website.
- Situations pending improvement:
  - Continuing education of directors: Not only does Sercomm continue to actively make arrangements for directors to attend various continuing education courses during Board of Directors' meetings, but the directors will also have to participate in the relevant courses where necessary.
  - Appointing a head of corporate governance: Sercomm shall appoint a head of corporate governance in accordance with Paragraph 3, Article 20 of the Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers.

Notes 1:

Assessment of Accountant's Audit independence and Eligibility

Items	Assessment Results	Accountant Independence
Does the accountant have any direct or indirect material financial interest in the Company?	No	Yes
Does the accountant engage in any financing or guaranteeing with the Company's directors?	No	Yes
Does the accountant have any close business relationships and potential employment relationships with the Company?	No	Yes
Whether the accountant or any of audit team members currently or for the last two years has acted as a director, management, or been in a position which had a significant impact on the audit work in the Company?	No	Yes
Does the accountant provide the Company with non-audit services that may directly affect the audit work	No	Yes
Whether the accountant is a broker for the stocks or other securities issued by the Company?	No	Yes
Whether the accountant serves as the defender of the Company or, on behalf of the Company, deal the conflict between other third parties?	No	Yes
Does the accountant have a kinship relationship with any person who acts as a director, management, or is in the position which has a significant impact on the audit work in the Company?	No	Yes

3.5.4 Compensation Committee

Compensation Committee Members' Professional Qualifications and Independent Analysis

Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience: An Instructor or Higher Position 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 Specialists 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	Criteria (Note) 1	2	3	4	5	6	7	8	Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan
Shih, Chin-Tay Independent Director	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Steve K. Chen Independent Director		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Rose Tsou Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Hilo Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	4

Note：Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations; please tick the appropriate corresponding boxes:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50 percent of the voting shares.
3. Not a natural-person 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 ranks as one of its top ten shareholders.

4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above 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 or ranks as of its top five shareholders.
6. 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.
7. 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.
8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.5.5 Compensation Committee Meeting Status

1. Compensation Committee consists of four members. The tenure is from June 12, 2019 to June 11, 2022.
2. Compensation Committee convened three regular meetings in 2019. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Shih, Chin-Tay	3	0	100%	
Member	Hilo Chen	3	0	100%	
Member	Steve K. Chen	2	1	67%	
Member	Rose Tsou	2	1	67%	

Notes：

1. There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors in 2018.
2. There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

3.5.6 Social Responsibility Implementation Status as Required by the Taiwan Financial Supervisory Commission

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and its reason(s)</th></tr>
<tr><th>Y</th><th>N</th><th>Explanation</th></tr>
<tr><td>1. Does the Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to Company operation, and establish risk management related policy or strategy?</td><td>V</td><td></td><td>
Sercomm Risk Contraol Framework:
Economic Issues
<table>
<tr><th>Identification of Risk</th><th>Risk Control Measures</th></tr>
<tr><td>• Financial
• Legal
• Audit
• Operating Management
• Corporate Investment
• Public Relations
• Investor Relations</td><td>Please refer to annual report chapter 7 “Review of financial position, management performance and risk management” and section 6 “Risk analysis and evaluation in recent years and up to the date of the annual report printed”.</td></tr>
<tr><td>Supply Chain Risk</td><td>• Ensure that products and supply chains are exclusive of conflict minerals
• New supplier selection criteria
• Educational training for suppliers
• Graded management of and guidance to suppliers by suppliers’ characteristics and risk levels</td></tr>
<tr><td>Code of Conduct and Anti-Corruption</td><td>• Enactment of the “Employee Code of Conduct”
• Continue the employees’ ethical codes and anti-corruption propagation training
• Set up the complaining channels instead of the high-rank management</td></tr>
</table>
Environmental Issues
<table>
<tr><th>Identification of Risk</th><th>Risk Control Measures</th></tr>
<tr><td>Climate Change</td><td>• Develop green and innovative energy-saving products
• Develop green advanced process technologies
• Build green factory management systems
• Implement energy-saving and carbon-reducing projects
• Inspect usage of energy and resources, and manage the sources</td></tr>
<tr><td>Strengthen Environmental Regulations</td><td>• Comply with related laws and regulations, and enact various operating procedures
• Occupational safety and health committee reviews compliance with environmental protection laws periodically.</td></tr>
</table>
</td><td>None</td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			Social Issue	

Identification of Risk	Risk Control Measures
Human Capital Risk Management	• Inspect and audit human resource periodically • Plan and execute employees' educational training and development planning • Design competitive remuneration and employees' benefit policies • Complete training, and development & training plan for local human resources
Safety and Health Risk	• Occupational safety and health committee reviews compliance with occupational safety laws periodically. • Employees' occupational safety and health educational training • Protective measures and control over risk of hazard • Safety and production order in workplace • Fulfill fire protection measures and enhance employees' awareness and training of fire protection • Implement the control over source of fire and voluntary safety inspection mechanism • Inspect electric and mechanical equipment periodically
Infectious Disease Control and Prevention	• Strengthen various infectious disease preparedness measures • Access control at factory premises, especially handling and disinfection at factory premises, et al. • Employees' self health management and checkup • Review and store preparedness supplies
Product Quality/Safety Management	• Design products in accordance with international rules and brand customers' standards • Strengthen the technical team

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
2. Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?		V	Sercomm regularly devotes resources to employee CSR training and cultivation, and also provides senior managers with information advocating an understanding of the importance of CSR.	Report to Chairman and President
3. Environmental Topic (1) Has the Company set an environmental management system designed toindustry characteristics?	V		Sercomm's factories have obtained certifications of Environmental Management System (ISO 14001) and Occupational Health and Safety Management System (OHSAS 18001). The Company is dedicated to pollution prevention, energy and resource saving, waste reduction and accident prevention with the aim of providing a comfortable and safe working environment.	None
(2) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	V		To pursue the balance between environmental protection and business sustainability, Sercomm actively participates in global environmental protection programs, such as the Carbon Disclosure Project (CDP), the Hazardous Substances Free (HSF) and Lead-free Process, etc.	None
(3) Does the Company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics?	V		In the face of global warming and climate change, Sercomm continues to proactively promote energy saving and carbon reduction measures and company policies such as green design even though we are yet to be listed in specific industries in which inventory registration is mandatory. Besides, Sercomm also works with customers to carry out carbon disclosure on the Carbon Disclosure Project (CDP) platform.	None
(4) Does the Company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	V		Sercomm values the environmental sustainability topic, and continues to implement and maintain various management systems (e.g. ISO 9001 and ISO 14001, et al.), and various regulations applicable internationally (e.g. RoHS and conflict minerals, et al.). Sercomm is committed to comply with various EHS laws and regulations and continues to fulfill the environmental protection policy. • Emissions Management : - Delivering production quantities of lead-free devices - The waste solution of various organic solvents (flux and detergent) applied in the production lines is handled by the legal cleaning service provider contracted by the factories.	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and its reason(s)</th></tr>
<tr><th>Y</th><th>N</th><th>Explanation</th></tr>
<tr><td></td><td></td><td></td><td>• Waste Management：
Sercomm reduces the consumption of energy and resource and mitigates the environmental impact caused during the product campaign and service. Sercomm strictly implements garbage sorting and reduction of waste at its factory premises, installs the storage area for the waste in accordance with the relevant requirements, and contracts the qualified waste disposition service provider to dispose of the waste. Meanwhile, it will conduct an audit on the site from time to time.
• Carbon Emissions Management：
Since 2014, Sercomm has set the boundary of organization per the customer's need and performed the greenhouse gas inspection by phase. Meanwhile, it set 2014 as the record year and the annual carbon emission is expected to increase <10%.
Please refer to Sercomm CSR report Chapter 4 "Enviromental Sustainability" for more detail.</td><td></td></tr>
<tr><td>4. Social Topic
(1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?</td><td>V</td><td></td><td>Sercomm believes in that human resource is the key to maintaining its core competitiveness and, therefore, spares no effort to train its employees and strictly comply with various requirements under the labor laws and the Responsible Business Alliance (RBA), formerly the Electronic Industry Citizenship Coalition (EICC). In light of the philosophy of "human resources are the foundation for innovation", the Company is dedicated to recruiting professionals for all positions available. Sercomm assigns employees adequately and properly based on their specialties and professions, regardless of race, gender, age, religion, political affiliation, social class, language, thoughts, birthplace, marriage, physical or mental disability. All employees are entitled to the same rights of work, salary and benefits.
Meanwhile, the Company forbids any form of discrimination, including age, race, skin color, gender or religious bias. We believe that new ideas can be generated through the interaction among employees of different cultures, backgrounds and experiences. In addition, the Company follows the existing relevant national laws, including the Labor Standards Act, the Employment Services Act and the Act of Gender Equality in Employment, etc., to ensure that applicants and employees are treated equally with respect to recruitment, assignment,</td><td>None</td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			development, evaluation and reward, and to prohibit child labor, forced labor, and violations of human rights. To implement Sercomm's RBA (EICC) policy, the Company regularly estimates the risks. On September,2019 conducted training for its employees and suppliers.	
(2) Has the Company established appropriately managed employee welfare measures (include salary and compensation, leave and others), and link operational performance or achievements with employee salary and compensation?	V		In light of the philosophy of "talent is the Company's most important asset" and "attend both employees' benefits and shareholders' interests", the Company offers its employees the most competitive total compensation to attract and retain talented individuals who will become the best momentum of the sustainable corporate growth. The Company's overall compensation include: basic salaries, rewards and employee bonuses. Employee's total compensation is based on the overall assessment of professional knowledge and skills, work responsibilities, performance. Through the offer of a diversified welfare policy and various employee recreation activities, Sercomm is able to promote social relations, to increase humane quality and further to enhance employees' productivity and morale, and achieve the goal of work-life balance.	None
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	V		Sercomm's ESH (Environment and Employee Safety and Health Protection) policy is focused on establishing a safe working environment and keeping employees healthy. The Company periodically provides a full medical examination to all employees and irregular training for emergency personnel.	None
(4) Has the Company established effective career development training plans?	V		Sercomm believes that human resources are the foundation for innovation. The Company combines corporate needs and each individual's career development as a main corporate orientation. The Company actively promotes relevant educational training and divides the training framework into 5 major systems to enhance the cultivation of talent in a targeted and systematic way.	None
(5) Does the Company's product and service comply with related regulations and international rules for customers' health and safety, privacy, sales, labelling and set polices to protect consumers' rights and consumer appeal procedures?	V		Sercomm endeavors to understand stakeholders' opinions and recommendations, and to build a good communication channel to ensure mutual understanding and respect. Stakeholders can submit their concerns via sc5388@sercomm.com.	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and its reason(s)</th></tr>
<tr><th>Y</th><th>N</th><th>Explanation</th></tr>
<tr><td>(6) Does the Company set supplier management policy and request suppliers to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?</td><td>V</td><td></td><td>Sercomm has always worked with its customers and suppliers to establish a sustainable supply chain and to develop the green products friendly to the environment together through periodic audit and guidance. Sercomm demands that the suppliers from various countries comply with the related local laws and regulations and also concerns itself with the supply chain's management of labor rights, environmental protection, safety, and health risk.</td><td>None</td></tr>
<tr><td>5. Does the Company refer to international reporting rules or guidelines to publish CSR Report to disclose non-financial information of the Company? Has the said Report acquire 3rd certification party verification or statement of assurance?</td><td>V</td><td></td><td>Sercomm's CSR report was based on the GRI standard guidelines. And PwC Taiwan has been engaged to perform assurance procedures on the sustainability performance information identified by Sercomm Corporation in accordance with the Statement of Assurance Engagements Standards No. 1, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" in the Republic of China.</td><td>None</td></tr>
<tr><td colspan="5">6. If the Company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice," please describe the operational status and differences: Sercomm has not yet defined a Corporate Social Responsibility Code of Practice.</td></tr>
<tr><td colspan="5">7. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility:
Since Sercomm was founded, its social participation has been rooted in its core value. Sercomm has been dedicated to "Training of Young Talents" as the major elements of its social participation. Sercomm exerts the strength gathered by employees from inside out, expands its social participation, provides feedback to the community, and services to people in the hopes of building a society which is innovative and diversified and that shows care for the society and environmental sustainability.
– Cultivation of Talents and Student Programs
Sercomm has played the role responsible for bridging the internal and external society charity groups to gather the charity and care, expand resources, and provide help. In order to care for the vulnerable groups in the community, Sercomm donates a fixed fund to orphanages and rural area schools each year and founded the "Sercomm Scholarship." By upholding the spirit of feedback to the community and society, Sercomm has its R&D supervisors nominate excellent junior high school students from the supervisors' hometown to receive the incentives granted by Sercomm in order to encourage the students to study hard and enable the young people and poor students to mitigate their economic burden and help their family's economy. Sercomm supports rural children in the hopes that the students may complete studies to help themselves and others and later contribute to society.</td></tr>
</table>

3.5.7 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures (1) Does the Company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?	V		Sercomm has established the "Employee Code of Conduct" and "Procedures for Handling Internal Material Information" as the guides for employees to execute the business activities. The Code consists of the general provisions, relationship with customers and suppliers, and conflict of interest. The general provisions cover Sercomm's corporate ethical management policy. Sercomm organizes the orientation training, general education training and management development training periodically in order to propagate the corporate ethical management policy. Meanwhile, Sercomm requests employees to issue a letter of undertaking to ensure that they will comply with the internal regulations and systems, including work rules, related operating procedures and codes of conduct, et al.. The Company also demands that it and its subsidiaries should carry out any operating activities in accordance with related laws and regulations and should follow high business ethical standards and avoid any unfair competition, perform the obligation to pay tax, prevent corruption and build adequate management systems to create an environment of fair competition. Sercomm also lists the above-mentioned regulation as internal compulsory E-Learning courses, to serve as the basis of operation and conducts. All important policies relating to the operation, investment, acquisition or disposition of assets, the lending of funds, articles of guarantee or endorsement, and financing from banks are subject to the study and assessment of the competent authorities of the Company and to the resolution of the Board.	None
(2) Whether the Company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates within a business context, thebusiness activities with a higher risk of unethical	V		Sercomm has signed the Declaration of Integrity with our employees and suppliers, and regularly analyzes and assesses business activities with higher risks of unethical conduct within our scope of business, in order to prevent unethical conduct.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
conduct;has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?				
(3) Whether the Company has established relevant policies that are duly enforced to prevent unethical conduct, provided implementation procedures, guidelines, consequences of violation and complaint procedures, and periodically reviews and revises such policies?	V		Sercomm established an "Operating Procedures for Handling Internal Material Information" for employee to comply with these relevant regulations. The Company holds new employee orientation quarterly, including confidential information, internal transactions practice..etc. And provide e-learning system for employee who are not able to attend. Sercomm has set up a reporting system for unethical conduct. With regard to any conduct that may violate business ethics, Sercomm will implement severe disciplinary measures, including termination of employment or business dealings and relationships, as well as take legal actions in due course.	None
2. Ethic Management Practice (1) Whether the company has assessed the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	V		When selecting new suppliers, in addition to the quality, cost, delivery and service covered by the general evaluation, the suppliers shall also comply with Sercomm's specifications about green products. In addition to the general procurement agreement and non-disclosure agreement, the suppliers shall also sign the following instruments and may become the qualified suppliers upon passing the audit on green products. • Product Quality Guarantee Agreement: To govern the quality standards to be followed by the suppliers. • Letter of undertaking for corporate social responsibility: The undertaking about labor interests and rights, health and safety, environmental protection, ethics, management systems, and social impact. • Supplier's EICC letter of undertaking: Requirements for business ethics and integrity.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
(2)Whether the company has set up a unit which is dedicated to promoting the company's ethical standards and regularly (at least once a year) reports directly to the Board of Directors on its ethical corporate management policy and relevant matters, and program to prevent unethical conduct and monitor its implementation?	V		The Company advocates ethical corporate management and has appointed a designated department to ensure the implementation of decisions of the Board in such matters. Related documents are subject to approval across the corporate hierarchy and require proper authorization. The HR representatives of ethical corporate management report to the Board quarterly.	None
(3)Whether the company has established policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	V		The Company has established a policy requiring the avoidance of any conflict of interest. This policy on ethical business practices is inserted into agreements with the employees and suppliers. In addition, the Company also provides channels to report unethical practices and keeps the identity of the informants in strict confidence. The e-mail for filing complaints is: audit@sercomm.com	None
(4)To implement relevant policies on ethical conducts, does the Company establish effective accounting and internal control systems that are audited by internal auditors or CPAs periodically?	V		Sercomm has established an effective accounting system and internal control system. Internal auditors will also assess high-risk operations and list them in the annual audit plan, prepare audit reports based on the audit results, submit the reports to the Audit Committee for review, and sit in Board of Directors' meetings to report the relevant results. In addition, each department must carry out self-evaluation of the internal control system every year to ensure the effectiveness of the design and implementation of the system.	None
(5)Does the Company provide internal and external ethical conduct training programs on a regular basis?	V		The Company holds an orientation for new employees, provides general managerial and developmental training regularly, and advocates the ethical corporate management policy of the Company.	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and its reason(s)</th></tr>
<tr><th>Y</th><th>N</th><th>Explanation</th></tr>
<tr><td>3. Implementation of Complaint Procedures
(1) Does the Company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?</td><td>V</td><td></td><td>Sercomm has set up a stakeholders section on company website to provide stakeholders, including shareholders, customers, and suppliers, with a channel to file complaints when their rights are infringed. In addition, the Company has also set up internal grievance management, where employees can file a grievance according to the grievance system when they encounter improper, illegal, or unreasonable incidents. Sercomm has established the "Employee Code of Ethics" which specify the relevant reporting channels, so that the relevant personnel can report any improper practice.</td><td>None</td></tr>
<tr><td>(2)Does the Company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?</td><td>V</td><td></td><td>Sercomm has established the relevant reporting and handling procedures for investigating improper conduct. Sercomm's "Employee Code of Conduct" stipulates that whistleblowers' information and reporting information shall be kept confidential.</td><td>None</td></tr>
<tr><td>(3)Does the Company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?</td><td>V</td><td></td><td>Sercomm's related regulations stipulate that appropriate measures shall be taken to protect whistleblowers in accordance with the law.</td><td>None</td></tr>
<tr><td>4. Information Disclosure
Does the Company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System (“MOPS”)?</td><td>V</td><td></td><td>Sercomm's website (http://www.sercomm.com) clearly discloses our ethical corporate management philosophy. Sercomm maintains smooth communication channels at all times, fully utilizes the spokesperson system, and adheres to the principles of ethics by disclosing public information immediately so as to protect investor relations and stakeholders' rights. Moreover, Sercomm discloses our implementation of ethical corporate management and the measures taken in our annual reports.</td><td>None</td></tr>
<tr><td colspan="5">5. If the Company has established corporate governance policies based on TWSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation：Sercomm has not yet established the “Corporate Conduct and Ethics Best Practice Principles”.</td></tr>
<tr><td colspan="5">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</td></tr>
</table>

3.6 Internal Control System Execution Status

Sercomm Corporation

Statement of Declaration of Internal Control

Date: March 18, 2020

Sercomm Corporation has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2019, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, nforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.

2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The Company will take immediate corrective actions once any shortcomings are identified.

3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the "Criteria for the Establishment of Internal Control Systems of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.

4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.

5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.

6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.

7. This statement of declaration has been approved by the Board on March 18, 2020 with all Directors in session under unanimous consent.

Sercomm Corporation

Paul Wang
Chairman

James Wang
President and CEO

3.7 Major Resloutions of Board Meetings and Shareholders' Meeting

3.7.1 Major Resolutions of Board Meetings

Date	Major Resolutions
2019.3.18	1. Ratification of bank line of credit 2. Ratification of 2018 internal control system statement 3. Approval of 2018 business report and 2019 business plan 4. Approval to terminate the private placement offering approved by 2018 shareholders' meeting 5. Approval of 2018 remuneration to directors and supervisors, employee profit sharing, and management bonus 6. Approval of 2018 profit distribution 7. Approval of 2018 financial statement 8. Approval of amendments to articles of incorporation 9. Approval of amendment of the operational procedures for loaning of company funds 10. Approval of the issuance of new common shares for cash or overseas/domestic convertible bonds in private placement 11. Approval of re-election of board directors of the Company 12. Approval of convening 2019 Annual Shareholders Meeting 13. Approval of the issuance of 1st domestic corporate bond 14. Approval of CPA independence and audit service remuneration
2019.4.8	1. Approval of nomination of director and independent director candidates 2. Approval of removing non-competition restrictions on managerial officers, directors and representatives
2019.5.10	1. Ratification of bank line of credit 2. Approval of directors and officers liability insurance
2019.6.17	1. Election of the new Chairman 2. Approval of Compensation Committee members
2019.8.13	1. Ratification of bank line of credit 2. Ratification to provide the endorsement and guarantee for Sercomm Russia LLC. 3. Approval to provide the endorsement and guarantee for Sernet (Suzhou) Technologies Corporation 4. Approval of amendment of the Rules of Procedure for Board of Directors Meetings
2019.11.8	1. Ratification of bank line of credit 2. Approval of Compensation Committee for management bonus and employee profit sharing 3. Approval of the Questionnarie of Self-Evaluation of Performance of the Board 4. Approval of 2020 Internal audit plan 5. Approval of employee stock option transfer and issuing new shares
2020.3.18	1. Ratification of bank line of credit 2. Ratification of 2019 internal control system statement 3. Ratification of Hitron Technologies disposition 4. Ratification to provide the endorsement and guarantee for Sercomm Russia LLC. 5. Approval of 2019 business report and 2020 business plan

Date	Major Resolutions
	6. Approval to terminate the private placement offering approved by 2019 shareholders' meeting 7. Approval of 2019 remuneration to directors, employee profit sharing, and management bonus 8. Approval of 2019 profit distribution 9. Approval of 2019 financial statement 10. Approval of amendment of the operational procedures for loaning of company funds and the operational procedures for endorsements and guarantees 11. Approval of the issuance of new common shares for cash or overseas/domestic convertible bonds in private placement 12. Approval of the issuance of employee stock options with price lower than fair market value 13. Approval of convening 2020 Annual Shareholders Meeting 14. Approval of amendment of the Rules of Procedure for Board of Directors Meetings, Rules of procedure for the Audit Committee, Rules of procedure for the Compensation Committee 15. Approval of the issuance of 2nd domestic corporate bond 16. Approval of share repurchase program 17. Approval of Board training plan

3.7.2 Major Resolutions of Shareholders' Meeting and Implementation Status

Date	Major Resolutions	Implementation Status
2019.06.12	Report Items	
	1. 2018 business report	
	2. 2018 audit committee's review report	
	3. 2018 distributable compensation for employees and directors	
	4. Share buy-back Program Status Report	
	5. 2018 Private Placement Status Report	
	Matters for Ratification	
	1. Adoption of the 2018 business report and financial statements	Approved
	2. Adoption of the proposal for distribution of 2018 profits	Approvedcash dividend per share of NT$2.49694121 and cash dividend payment date was August, 2, 2019.
	Discussion Items	
	1. Amendment to the operational procedures for loaning of Company funds	Approved
	2. Amendment to the Operational Procedures for Acquisition and Disposal of Assets	Approved
	3. The Issuance of New Common Shares for Cash or Overseas/Domestic Convertible Bonds in Private Placement	Approved
	4. Re-election of Board of Directors of the Company	Registered in the Ministry of Economy on 2019/6/21
	5. Release of Restrictions on Competitive Activities of Directors	Approved

3.8 Certified Public Accountant (CPA) Information

(1) If non-audit fees paid to CPAs, their accounting firm and its affiliates are more than one-fourth of audit fees, specify the amount of audit and non-audit fees, as well as the scope of non-audit services:

CPA Service Fees

Accounting Firm	Name of CPA	Period covered by CPA's audit	Note
PricewaterhouseCoopers (PwC) Taiwan	Liang, Yi-Chang Wu, Yu-Lung	2019/01/01 ~ 2019/12/31	None

Unit: Thousand NTD

	Range of CPA service fee	Audit fee	Non-audit fee	Total
1	Under NT$ 2,000		748*	748
2	NT$2,000 ~ NT$4,000	4,150		4,150
3	NT$4,000 ~ NT$6,000			
4	NT$6,000 ~ NT$8,000			
5	NT$8,000 ~ NT$10,000			
6	NT$10,000 and above			

*Note：corporate social report assurance report, treasury stock opinion

(2) For CPA changes, if the audit fee in the first year is lower than that of the prior year, specify the audit fee before and after the change and the reasons: Not applicable

(3) If audit fees dropped by more than 15%, specify the amount and percentage of decline and reasons: Not applicable

(4) Information on CPA changes:

A. Former CPAs

Date of Change	Approved by BOD on March 12, 2018		
Reasons and Explanation of Changes	Internal management needs		
State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Clients / Status	CPA	Consignor
	Appointment terminated automatically		V
	Appointment rejected (discontinued)		
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	None		
Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

B. Succerssor CPAs

Accounting Firm	PricewaterhouseCoopers (PwC) Taiwan
CPA	Liang, Yi-Chang Wu, Yu-Lung
Date of Engagement	Approved by BOD on March 12, 2018
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

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

(5) Company Chairman, President or finance/accounting manager held positions in the Company's audit firm or its affiliates within the past year: Not applicable

3.9 Changes in Share Positions among Directors, Supervisors, Managers

Unit: Shares

Title	Name	2019		Current Year to April 17	
		Shareholding Increase / Decrease	Stock Mortgage	Shareholding Increase / Decrease	Stock Mortgage
Chairman	Paul Wang Representative of LiJin Financial Consultant Co. Ltd.	0	0	0	0
Director	James Wang Representative of Zhuo Jian Investment Co., Ltd.	(858,000)	(750,000)	0	0
Director	Ben Lin Representative of Zhen Bang Investment Co., Ltd.	(450,000)	(450,000)	0	0
Director	Lu, Shyue-Ching Representative of Pacific Venture Partners Co. Ltd	0	3,090,000	0	0
Independent Director	Shih, Chin-Tay	0	0	0	0
Independent Director	Steve K. Chen	0	0	0	0
Independent Director	Rose Tsou	0	0	0	0
CEO / President	James Wang	(858,000)	(750,000)	0	0
Executive VP	Ben Lin	(450,000)	(450,000)	0	0
Vice President	Leo Chen	(225,000)	(225,000)	0	0
Vice President	Jemmy Lee	(42,171)	40,000	0	0
Vice President	Hawk Wu	(12,000)	50,000	0	0
Vice President	Colette Chen	51,000	40,000	(71,000)	0
Vice President	Vicky Lin	75,000	25,000	0	0
Vice President	Genevieve Lu	75,000	25,000	0	0
Senior Vice President	Dean Wang	220,000	100,000	0	0
Auditing Supervisor	Winnie Hsieh	0	15,000	(9,000)	0

3.10 Information of the Company's Top Ten Shareholders

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders	
	Shares	%	Shares	%	Shares	%	Name	Relation
Owner of Fubon Life Insurance Co., Ltd. - Richard M.Tsai	13,565,000	5.45%	0	0.00%	0	0.00%	-	-
Owner of Yun Chuan Investment Ltd. - Bo-Lu Lin	11,006,360	4.42%	0	0.00%	0	0.00%	-	-
Owner of Cathay Life Ins urance Co., Ltd. - Diao-kuei, Huang	8,395,000	3.37%	0	0.00%	0	0.00%	-	-
Swedbank Robur Globalfond	6,000,000	2.41%	0	0.00%	0	0.00%	-	-
Owner of Taiwan Life Insurance Co., Ltd. - Su-Guo Huang	5,745,000	2.31%	0	0.00%	0	0.00%	-	-
Owner of Taiwan Cooperative Bank- Chung-Dar Lei	5,697,000	2.29%	0	0.00%	0	0.00%	-	-
Owner of TransGlobe Life Insurance Inc. - Teng De Peng	5,425,000	2.18%	0	0.00%	0	0.00%	-	-
Norges Bank	4,821,000	1.94%	0	0.00%	0	0.00%	-	-
Su Yi	4,809,322	1.93%	0	0.00%	0	0.00%	-	-
Stichting Depositary APG Emerging Markets Equity Funds	4,547,000	1.83%	0	0.00%	0	0.00%	-	-

3.11 Long-Term Investments Ownership

Investee	Sercomm Investment		Total Investment	
	Investment Amount	%	Investment Amount	%
Sercomm USA Inc.	650,000 shares (USD$ 650)	100.00%	650,000 shares (USD$ 650)	100.00%
Shukuan Investments Ltd.	2,800,000 shares (NTD$ 28,000)	100.00%	2,800,000 shares (NTD$ 28,000)	100.00%
Sercomm Trading Co., Ltd.	USD$ 46,800,000	100.00%	USD$ 46,800,000	100.00%
Zealous Investments Ltd.	USD$ 30,956,000	100.00%	USD$ 30,956,000	100.00%
Sernet (Suzhou) Technologies Corporation	USD$ 29,900,000	100.00%	USD$ 29,900,000	100.00%
Smart Trade Inc.	USD$ 16,000,000	100.00%	USD$ 16,000,000	100.00%
DWNet Technology (Suzhou) Co., Ltd.	USD$ 16,000,000	100.00%	USD$ 16,000,000	100.00%
Sercomm Japan Corp.	9,800 shares (JPY$ 490,000)	100.00%	9,800 shares (JPY$ 490,000)	100.00%
Sercomm France SARL	1,000 shares (EUR$100)	100.00%	1,000 shares (EUR$100)	100.00%
Sercomm Italia SRL	10,000 shares (EUR$10)	100.00%	10,000 shares (EUR$10)	100.00%
Sercomm Deutschland GmbH	EUR$ 100,000	100.00%	EUR$ 100,000	100.00%
Sercomm Russia LLC	RUB$ 28,948,000	100.00%	RUB$ 28,948,000	100.00%
Huayi (Suzhou) Telecommunication Technologies Ltd.	RMB$ 500,000	100.00%	RMB$ 500,000	100.00%
HawXeye LLC.	USD$ 157,000	55.00%	USD$ 157,000	55.00%
Suzhou FemTel Communications Co., Ltd.	RMB$ 6,500,000	100.00%	RMB$ 6,500,000	100.00%
Nanjing FemTel Communications Co., Ltd.	RMB$ 2,500,000	100.00%	RMB$ 2,500,000	100.00%
Sercomm Technology Inc.	5,000,000 shares (USD$ 5,000)	100.00%	5,000,000 shares (USD$ 5,000)	100.00%
Sercomm Philippines Inc.	PHP$ 313,897,000	99.99%	PHP$ 313,897,000	99.99%
Sercomm Britain Limited	GBP$ 350,000	100.00%	GBP$ 350,000	100.00%
Refinement Property Holding Inc.	PHP$ 200,000	39.99%	PHP$ 200,000	39.99%
Servercom (India) Private Limited	INR$ 50,000,000	100.00%	INR$ 50,000,000	100.00%
Sernet Technology Mexico S. de R.L. de C.V.	MXN$ 400,000	99.99%	MXN$ 400,000	99.99%

IV. Capital & Shares

4.1 Capital & Shares

4.1.1 Capitalization

Unit: Shares, as of December 31, 2019

Type of Share	Authorized Shares		
	Issued Shares	Un-issued Shares	Total Shares
Common Stock	249,054,767	250,945,233	500,000,000

4.1.2 History of Capitalization

Unit: Shares/ NTD, as of December 31, 2019

Year/ Month	Issue Price	Authorized		Paid-In Capital		Source of Capital
		Shares	Amount	Shares	Amount	
2018/12	10	500,000,000	5,000,000,000	249,054,767	2,490,547,670	Exercise of Employee Stock Options

4.1.3 Status of Shareholders

As of April 17, 2020

Type of Shareholders	Government Agencies	Financial Institutions	Other Legal Entities	Foreign Institutions	Individual	Total
Number of Shareholders	3	33	80	184	17,270	17,570
Shareholding	7,386,000	32,277,606	50,151,740	66,467,495	92,771,926	249,054,767
Ownership%	2.97%	12.96%	20.14%	26.69%	37.25%	100.00%

4.1.4 Major Shareholders

Unit: Shares, as of April 17, 2029

Name of Shareholders	Shareholding	%
Fubon Life Insurance Co., Ltd.	13,565,000	5.45%
Yun Chuan Investment Ltd.	11,006,360	4.42%
Cathay Life Insurance Co., Ltd.	8,395,000	3.37%
Swedbank Robur Globalfond	6,000,000	2.41%
Taiwan Life Insurance Co., Ltd.	5,745,000	2.31%
Taiwan Cooperative Bank	5,697,000	2.29%
TransGlobe Life Insurance Inc.	5,425,000	2.18%
Norges Bank	4,821,000	1.94%
Su Yi	4,809,322	1.93%
Stichting Depositary APG Emerging Markets Equity Funds	4,547,000	1.83%

4.1.5 Distribution Profile of Ownership

Unit: Shares, as of April 17, 2020

Class of Shareholding	Number of Shareholders	Shareholding (share)	%
1 ~999	3,093	564,411	0.23%
1,000 ~5,000	11,623	22,939,198	9.21%
5,001 ~10,000	1,439	11,466,959	4.60%
10,001 ~15,000	417	5,383,046	2.16%
15,001 ~20,000	262	4,817,952	1.93%
20,001 ~30,000	225	5,781,231	2.32%
30,001 ~40,000	89	3,133,261	1.26%
40,001 ~50,000	71	3,341,684	1.34%
50,001 ~100,000	152	10,854,991	4.36%
100,001 ~200,000	73	10,062,542	4.04%
200,001 ~400,000	51	14,200,820	5.70%
400,001 ~600,000	23	11,871,694	4.77%
600,001 ~800,000	8	5,646,047	2.27%
800,001 ~1,000,000	9	8,277,722	3.32%
Over 1,000,001	35	130,713,209	52.48%
Total	17,570	249,054,767	100.00%

4.1.6 Market Price, Net Worth, Earnings and Dividends per Share

Unit: NTD/ Thousand Shares

Item			2018	2019	March 31, 2020
Market Price	Highest		89.6	85.5	79.0
	Lowest		43	60.7	53.9
	Average		67.78	71.89	70.09
Net Value per Share	Before Distribution		28.53	30.82	30.31
	After Distribution		26.04	-	-
Earnings per Share	Weighted Average Shares		243,273	245,582	249,055
	Earning per Shares		3.32	4.21	0.35
Dividends per Share (Note 1)	Cash Dividend		2.5	3.0	-
	Stock Dividend	From Retained Earnings	0	0	-
		From Capital Surplus	0	0	-
	Accumulative Undistributed Dividends		-	-	-
Return on Investment (Note 2)	Price / Earning Ratio		20.42	17.08	51.04
	Price / Dividend Ratio		27.11	23.96	-
	Cash Dividend Yield Rate		3.69	4.17	-

Note 1：Pending for Shareholder's approval

Note2：Price / Earning Ratio = Average market price / Earnings per share;
Price / Dividend Ratio= Average market price / Cash dividend per share;
Cash Dividend Ratio = Cash dividend per share / Average market price

4.1.7 Dividend Policy

The appropriations of the Company's earnings are base on the annual net income. The dividend amount is determined by the profit earning condition, financial condition and future operating needs for cash. In principle, dividends could be distributed in cash and/or in the form of stock; nevertheless, cash dividends shall be no less than 10% of the aggregate amount distributed.

4.1.8 Dividends Paid

Year	EPS NT$	Cash Dividend NT$ per share
2019	4.21	3.00
2018	3.32	2.50
2017	5.38	3.75

4.1.9 Distribution of Profit

Sercomm's Board of Directors adopted a proposal for 2019 profit distribution. This proposal is subject to approval by shareholders at the annual general meeting, scheduled for June 15, 2020.

4.1.10 Proposal of Profit Distribution for 2019

Unit: NTD

Cash dividend	$3.00 per share
Cash bonus to employees	$231,275,030
Remuneration to Directors and Supervisors	$22,724,970

4.1.11 Buyback of Treasury Stock

Treasury stocks: Batch Order	9th Batch
Purpose of buy-back	For employee
Timeframe of buy-back	2018/09/12 – 2018/11/05
Price range	34.3-86.3
Class, quantity of shares bought back	Common stock, 10,000,000 shares
Value of shares bought-back (in NT$ thousands)	NT$ 496,186,692
Share buyback completion rate (%)	100%
Shares sold/transferred	Common stock, 10,000,000 shares
Cumulative number of own shares held	0 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares (%)	0%

4.1.12 Issuance of Corporate Bonds

As of March 31, 2020

Issuance		1st Domestic Unsecured Bond
Issue Date		2019/7/26
Denomination		1,000,000
Offering Price		Par
Total Amount		NT$ 2,300,000,000
Coupon		1.02%
Tenor and Maturity Date		Tenor: 5 years Maturity: 2024/7/26
Outstanding		NT$ 2,300,000,000
Credit Rating		twA- (Taiwan Ratings Corporation, 2019/5/29)
Trustee		Taiwan Cooperative Bank
Guarantor		None
Underwriter		Taishin Securities Co., Ltd
Legal Counsel		Handsome Attorneys-at-Law Ya-Wen Chiu
Auditor		PricewaterhouseCoopers Yi-Chang Liang and Yu-Lung Wu
Repayment		Bullet
Redemption or Early Replayment Clause		None
Covenants		None
Other Rights of Bondholders	Conversaion Right	None
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities	None
Dilution Effect and Other Adverse Effects on Existing Shareholders		None
Custodian		None

4.1.13 Issuance of Employee Stock Options

As of March 31, 2020

Category	1st Employee Stock Options
Date of Approval by Regulatory Authority	2015/5/25
Issue Date	2015/5/27
Number of Shares Issued (Share)	10,000,000
Number of Shares Issued / Total Issued Shares (%)	4.12%
Exercise Period	10 years
Method of Provision	Issue of new shares
Vesting Schedule	After 2 full years have elapsed from the time the stock option holder is allocated the employee stock options, the option holder may exercise the share purchase rights according to the schedule set out below. The duration of the stock options is 10 years. The stock options and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession. After the expiration of the duration of the employee stock options, any unexercised options shall be deemed forfeited, and the stock option holder may not make any further claim to share purchase rights. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock options (cumulative) Two full years have elapsed: 50% Three full years have elapsed: 75% Four full years have elapsed: 100%
Number of Shares in Exercised Options (Share)	6,135,000
Total Amount in Exercised Options (NTD)	318,032,700
Number of Shares In Unexercised Options (Share)	3,865,000
Price per Share In Unexercised Options (NTD)	49.7
Number of Shares In Unexercised Options as Share of Total Issued Shares (%)	1.55%
Impact on Shareholders' Equity (%)	2.50%

4.1.14 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options

As of March 31, 2020

<table>
<tr><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">No. of Stock Options</th><th rowspan="2">Stock Options as a Percentage of Shares Issued</th><th colspan="4">Exercised</th><th colspan="4">Unexercised</th></tr>
<tr><th>No. of Shares Converted</th><th>Strike Price (NT$)</th><th>Amount (NT$ thousands)</th><th>Converted Shares as a Percentage of Shares Issued</th><th>No. of Shares Converted</th><th>Strike Price (NT$)</th><th>Amount (NT$ thousands)</th><th>Converted Shares as a Percentage of Shares Issued</th></tr>
<tr><td>President</td><td>James Wang</td><td rowspan="10">419,000</td><td rowspan="10">0.16</td><td rowspan="10">419,000</td><td rowspan="10">54.5</td><td rowspan="10">22,836</td><td rowspan="10">0.16</td><td rowspan="10">0</td><td rowspan="10">0</td><td rowspan="10">0</td><td rowspan="10">0</td></tr>
<tr><td>Executive VP</td><td>Ben Lin</td></tr>
<tr><td>Subsidiary CEO</td><td>Paul Wang</td></tr>
<tr><td>VP</td><td>Leo Chen</td></tr>
<tr><td>VP</td><td>Jemmy Lee</td></tr>
<tr><td>VP</td><td>Hawk Wu</td></tr>
<tr><td>VP</td><td>Colette Chen</td></tr>
<tr><td>VP</td><td>Vicky Lin</td></tr>
<tr><td>VP</td><td>Genevieve Lu</td></tr>
<tr><td>Director</td><td>Winnie Hsieh</td></tr>
</table>

4.1.15 Financing Plans and Implementation

(1) Description of the plans：1st Domestic Unsecured Corporate Bond

- Required capital：NT$ 2,300,000,000
- Source of funding：Issuance of 1st Domestic Unsecured Corporate Bond
- Capital utilization plan

Unit: Thousand NTD

<table>
<tr><th rowspan="2">Project Items</th><th rowspan="2">Estimated Completion Date</th><th rowspan="2">Funding Amount</th><th>Progress of the Capital Utilization</th></tr>
<tr><th>Third quarter of 2019</th></tr>
<tr><td>Repay loans</td><td>Third quarter of 2019</td><td>1,760,000</td><td>1,760,000</td></tr>
<tr><td>Operation needs</td><td>Third quarter of 2019</td><td>540,000</td><td>540,000</td></tr>
</table>

- Status of project changing：None.
- Announcement on M.O.P.S.：2019/3/18 and 2019/7/18

(2) Status of implementation：

Unit: Thousand NTD

<table>
<tr><th>Project Items</th><th colspan="2">Execution Status</th><th>Third Quarter of 2019</th><th>End of Third Quarter of 2019</th><th>Improvement Plan and Progress</th></tr>
<tr><td rowspan="4">Repay loans</td><td rowspan="2">Expended Amount</td><td>Expect</td><td>1,760,000</td><td>1,760,000</td><td rowspan="8">Scheduled as planned</td></tr>
<tr><td>Actual</td><td>1,760,000</td><td>1,760,000</td></tr>
<tr><td rowspan="2">Rate of Execution(%)</td><td>Expect</td><td>100</td><td>100</td></tr>
<tr><td>Actual</td><td>100</td><td>100</td></tr>
<tr><td rowspan="4">Operation needs</td><td rowspan="2">Expended Amount</td><td>Expect</td><td>540,000</td><td>540,000</td></tr>
<tr><td>Actual</td><td>540,000</td><td>540,000</td></tr>
<tr><td rowspan="2">Rate of Execution(%)</td><td>Expect</td><td>100</td><td>100</td></tr>
<tr><td>Actual</td><td>100</td><td>100</td></tr>
</table>

Project Items	Execution Status		Third Quarter of 2019	End of Third Quarter of 2019	Improvement Plan and Progress
Total	Expended Amount	Expect	2,300,000	2,300,000	
		Actual	2,300,000	2,300,000	
	Rate of Execution(%)	Expect	100	100	
		Actual	100	100	

– Repay loans

Unit: Thousand NTD

Lending Institution	Interest Rate(%)	Repayment on Third Quarter of 2019	Reduced Interest Amount	
			2019	After 2019
Mizuho Bank	0.83%	500,000	Note*	Note*
Sumitomo Mitsui Banking Corporation	0.84%	300,000	Note*	Note*
Citi Bank	2.90%	960,000 (USD30,000)	6,988	18,048
Total		1,760,000	6,988	18,048

Note*:This plan was used for repaying loans and reducing some interests. For interests that were yet to be reduced, the issuance of long-term corporate bonds at this time will effectively reduce the risk of rising interest rates in the future as the current interest rates for long-term corporate bonds are still relatively low. The issuance of long-term New Taiwan dollar-denominated corporate bonds to increase the source of long-term funds not only has no exchange rate risk, but can also lock in the cost of long-term funds, which is in line with the principle of operations management.

As of the third quarter of 2019, the amount of funds used for repaying loans was NT$1,760,000,000. The amount of capital cost savings is calculated based on the actual interest rates, which will help Sercomm save NT$6,988,000 in interest expenses in 2019 and NT$18,048,000 every year thereafter. The amount of capital cost savings is equivalent to interest savings from the original expected benefit.

– Operation needs

This round of fundraising involves the issuance of medium- to long-term corporate bonds, which can enhance our financial structure. Besides, the current interest rates for medium- and long-term corporate bonds are still quite low. The issuance of New Taiwan dollar-denominated domestic unsecured ordinary corporate bonds not only has no exchange rate risk, but can also fix long-term capital costs, thus positively benefiting the development of our operations in the long term. As of the third quarter of 2019, the actual amount of funds drawn to increase working capital was NT$540,000,000.

V. Business Overview

5.1 Business Activities

5.1.1 Business Scope

Item	2018	2019
Wired Product	10.72%	12.63%
Wireless Product	89.28%	87.37%
Total	100.00%	100.00%

5.1.2 Main Products

(1) Fixed-Mobile Products

(2) Home Gateway

(3) Enterprise Products

(4) IoT Products

5.1.3 New Products under Developing

Sercomm is committed to increasing the added value of hardware products with extensive software technologies, enhancing competitiveness through value differentiation. We offer comprehensive telecom broadband solutions to our customers all over the world, including first-tier telecom operators, retail brands and service providers and is now a global leader in the industry. With customized solutions as the foundation and our commitment and responsibility toward our customers in mind, Sercomm invests R&D resources and works jointly with customers in the early stage of design to come up with new technologies and products. Sercomm's superior innovative R&D achievements has acquired the affirmation of numerous leading clients around the world, rendering Sercomm the primary development partner for new products to which customers establish a stable long-term relationship.

5.2 Industry Overview

5.2.1 Industry Status and Development

Mobile communication technology has evolved from 1G, which could only support mobile communication at the very beginning, to 2G, which allowed people to send text messages. Then came the function of mobile Internet access, which was followed by an increase in mobile Internet connection speed and eventually by the current 4G technology. The market is generally of the opinion that 2019 is the year for 5G because major global telecommunication manufacturers will continue to test and plan the commercial operation of 5G.

2020 was originally touted as the early stage of the gradual explosion of 5G because many telecommunication carriers would gradually increase investments and build 5G network equipment. However, with the emergence of COVID-19, from the upstream chip sector to the downstream service and product sectors have raised doubts over whether 5G rollout in 2020. Yet, the good news from the COVID-19 pandemic is that people are able use 5G in live telemedicine, entertainment, public security, remote office, and online education during the COVID-19 pandemic. Hence, we can expect a good prospect of 5G in mid and long term.

Market Intelligence and Consulting Institute (MIC) has listed 10 major development forecasts for the trend of the network communication industry in 2020:

1. New 5G enterprise architecture – Telecom operators will enter the 5G Standalone (SA) mode and explore new models for 5G charges.

2. Smartphone market to grow again - 5G smartphones will drive sales growth again in the smartphone market.
3. Competition for unlicensed spectrum - The 6Hz spectrum and its coverage and high-speed requirements have garnered attention.
4. The new realm of fixed-mobile convergence (FMC) - FMC is included in the Release 16 (R16) standard to assist in the deployment of 5G.
5. The next-generation passive optical network (XG-PON) evolution - The next-generation standards are currently being developed as XG-PON becomes widespread.
6. High-speed switch upgrade - The application of 5G will drive demand for computation and shipment of actuators.
7. Arrival of the new Wi-Fi regulations - The development of new specifications will bring new opportunities in the global networking market.
8. Transformation of telecommunication carrier services - New types of services promote operational growth.
9. Further evolution of mobile text messages - Telecommunication carriers will try to regain the multimedia communication market with rich communication services (RCS).
10. New wave of mergers and acquisitions in the network communication industry - The appeal of autonomy and new growth will drive consolidation and mergers in the network communication industry.

Although 5G is an inevitable trend for future development, there is currently a serious lack of 5G infrastructure, while the amount of funds to be invested will be several times more than that in 4G. In addition, there are some issues with 5G smartphones that still need to be addressed, such as high power consumption which affects standby time, and high R&D costs. Therefore, in the next few years, mobile networks will still be 4G-based. After the gradual completion of the relevant infrastructure, mobile communication will gradually transition from 4.5G, where 4G and 5G coexist, to the era of 5G.

5.2.2 The Relationship between the Upstream, Midstream and Downstream Parts of the Industry

The major business of this Company is the manufacture of broadband and data service equipment, which include all sorts of network transmission equipment and is a midstream manufacturer in the telecommunications equipment industry. The upstream of the industry chain is mainly module and parts suppliers. The downstream terminal service providers include: telecommunication operators, Multiple System Operator, Network Services Platform, Enterprise System Integrator and other service providers.

Upstream	Midstream	Downstream
CPU	FTTx, DOCSIS, xDSL, Home Router, WIFI Extender, STB	Networking Equipment
RF IC/Module	Small Cell, Mobile CPE	Telecom Operator
Memory	Enterprise Ap/ Controller, Enterprise Router, Enterprise Switch	Multiple System Operator
Active/ Passive Component	IoT Device, IoT Gateway, IP Camera	Network Services Platform
PCB		Other Service Provider
Plastic And Metal Components		Enterprise System Integrator
Wire		
Power Supply		
Others		

5.2.3 Products Development and Competition

Home Gateway

As the global demand for infrastructure upgrade increases, existing major markets, such as Europe and North America, are expected to continuously maintain steady growth. In addition, Sercomm also actively expands into emerging markets, such as Latin America, Southeast Asia, and India, which will be able to inject momentum into operational growth.

Fixed-Mobile Products

Sercomm's has been successfully transformed into a direct sales model. Broadband applications are driving demand for broadband access equipment upgrade. Sercomm offers customized services according to the needs and service models of telecommunication clients, thereby successfully increasing the added value of products. In addition, in response to the advent of the 5G era, Sercomm provides complete small cell solutions and has become a technology partner of telecommunication carriers around the world.

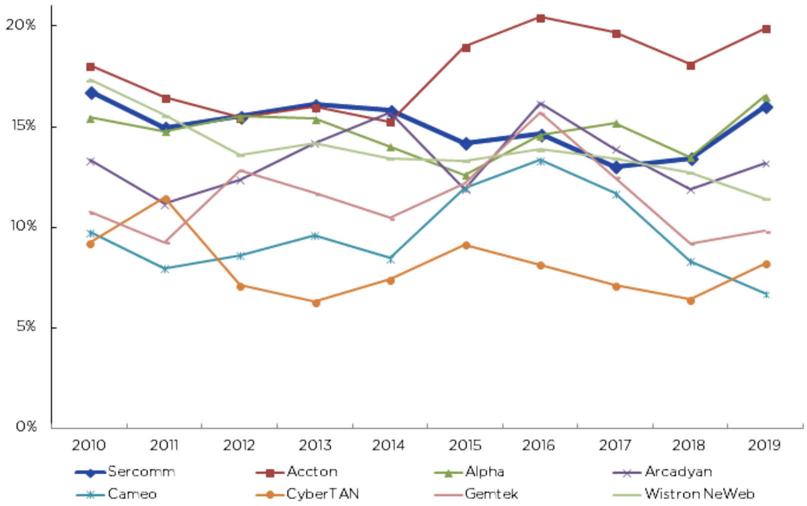
Enterprise Products

In addition to the steady growth of enterprise products in North American market, the Chinese market is also growing, adding new momentum to our operations. Moreover, the next-generation WiFi-6 technology driven by 5G and IoT will also increase demand for enterprise equipment, which will further benefit us in the future.

IoT Products

With the emergence of smart IoT applications, Sercomm is penetrating into the areas of AI and AIoT to provide customized security monitoring, smart medical, smart energy and other services. By maintaining our advantage in software and hardware integration, Sercomm is penetrating into the European and US markets. It is hoped that our market share can further increase.

Trends in Gross Margin Rate for Taiwanese Networking Vendors



Source: M.O.P.S

The Company focuses on software and firmware integration, and maintains its leading position in the research and development of communications technology. We have a relative advantage in smart home, telematic, cloud application or other IoT application, which allows us to maintain certain profit earning while pursuing growth of income.

5.2.4 Research & Development Expenses

Unit: Thousand NTD

Item	2019	2020 Q1
R&D Expenses	1,996,009	435,079
Net Sales	31,797,130	6,801,987
R&D/Net Sales (%)	6.28%	6.40%

5.2.5 R&D Achievements:

(1) Indoor Enterprise CBRS Small Cell
(2) Outdoor Strand Mount CBRS Small Cell with DOCSIS 3.1
(3) LTE Gateway
(4) 11ax Dual Band WiFi Voice Gateway
(5) 11ax Dual Band WiFi Data Gateway
(6) DOCSIS 3.1 eMTA
(7) DOCSIS 3.1 Modem
(8) DOCSIS 3.1 MoCA Ethernet Gateway
(9) Premium 10G PON Home Gateway Unit with 11ax (High End)
(10) 10G PON Home Gateway Unit with 11ax (High End)
(11) 10G PON Home Gateway Unit with 11ax(Middle End)
(12) VDSL2 35b IAD with 2x2 11+2x2 WiFi 6
(13) WiFi 6E Router - 4+4+4 11ax Tri Band Wireless Router
(14) AX1800 WiFi Router-2+2 11ax Dual Band Wireless Router
(15) 5G NR CPE
(16) LTE Gateway
(17) 4G Home Security Gateway
(18) WiFi Repeater (US)
(19) Asset Tracker with Multiple Sensors
(20) Rechargeable Asset Tracker
(21) IoT Smart Button
(22) Bi-directional IoT Socket Modem
(23) Port GE & 1 Port 5GE, 2*10G SFP+L2 POE Switch
(24) 24 Port GE, 4*10G SFP+L2/L3 PoE/NonePOE Switch
(25) 24*2.5G GE, 4*10GE/SFP+, L3 PoE/NonePoE Switch
(26) 24*5GE, 2*40G QSFP+, L3 Carrier whitebox Switch
(27) 4KP60 IPTV/OTT STB
(28) 4KP60 IPTV/OTT STB with WiFi6
(29) PON Gateway + OTT Dual Band

5.3 Long-term and Short-term Business Development Plans

5.3.1 Long-term Development Plans

For many years, Sercomm devoted to research, development and integration ability. Through differentiation strategy, the Company grows a role in global telecommunications industry and builds a long-term partnership with international operators. The Company invests research and development resources to co-develop with our clients in the initial stage of design for many new technologies and new products due to our commitment and sense of responsibility to our clients. Meanwhile, we improve customer satisfaction by optimizing the efficiency and quality in manufacturing, quality control and customer service.

5.3.2 Short-term Development Plans

(A) Marketing strategy

We are devoted to elevating the added value of our hardware products with abundant software technology and to improve our competitiveness by differentiating values and to provide all around telecommunications broadband solutions. Our clients are first-tier international telco operators, and service providers, networking companies and system integrators and we have successfully positioned Sercomm as an international supplier. Our marketing strategy focuses on global technical support, which is based on customized solutions and delve into the direct supply chain of our telecommunication carrier clients with close technical support provided through our service centers around the world. We have established branch offices in more than ten countries including the U.S., Japan, China, France, Germany, Italy and Russia, where we will continue to expand our market and clients.

(B) Production strategy

Production and manufacturing centers have been established in Chunan, Taiwan; Suzhou, China; and Southeast Asia, setting up our global operations system. Not only are these centers located near our R&D centers that enables instant and good engineering support, but flexible storage configuration and efficient production process have also effectively shortened product preparation and production schedule. Our factories are equipped with a full range of advanced process and automation equipment, and continue to improve manufacturing yield through a high-efficiency operations management system. Due to economies of scale, our manufacturing processes can make full use of the complete supply chains for electronic components in each region, allowing us to immediately provide customers with efficiency and cost-competitive broadband solutions.

5.4 Market, Production and Sales Outlook

5.4.1 Revenue Breakdown by Geography

Unit: Thousand NTD

Region	2018		2019	
	Amount	Amount	Amount	%
Taiwan	75,995	0.23	1,464	0.00
Europe	11,505,485	34.46	10,116,997	31.82
North America	13,461,538	40.32	14,550,419	45.76
Asia ex-Taiwan	8,341,923	24.99	7,126,783	22.42
Other	0	0.00	1,467	0.00
Total	33,384,941	100.00	31,797,130	100.00

5.4.2 Future Supply and Demand in the Market and Potential for Growth

(1) IHS Markit estimates that 5G will reach 550 million users globally in 2022, while producing new goods and services worth some USD 12.3 trillion worldwide. The global 5G industry value chain contributes USD 3.5 trillion while Taiwan will achieve more than 130 billion in 2035 and bring about 510,000 job opportunities.

(2) High speed transmission requires broad bandwidth but because the frequency fragmentation is severe, it is very difficult to find a continuous spectrum of broad bandwidth. 5G can only develop by reaching higher frequency. However, high frequency is weaker in transmission and small cells may play an important role in improving indoor coverage. Research estimate that the small cells will grow at an annual compound rate of 26.39%.

(3) MIC estimated that the global 5G penetration rate will reach 15%, and nearly half of the world’s countries will commercial 5G by 2025. Taking stock of the progress of 5G vendors around the world, the Northeast Asia is more advanced than the global average. However, the US is expected to surpass South Korea as the world's number one, while the UK is the leading country in 5G development in Europe. MIC estimated that by 2025, the top three countries in terms of 5G penetration rate will be the US (52%), South Korea (50%), and Japan (48%).

(4) The Mobility Report published by Ericsson on November 25, 2019 revealed that by the end of 2025, the 5G ultra wideband network will cover 65% of the world's population and process 45% of the world's mobile data traffic, while the number of 5G users around the world will reach 2.6 billion, with the average monthly traffic increasing from 7.2GB to 24GB. Ericsson's report also forecast that in the next few years, North America will record the highest 5G acceptance rate which estimated that 74% of the mobile subscriptions forcast to be 5G by the end of 2025. North East Asia is expected to follow at 56%, with Europe at 55%.

(5) According to a new study by ABI Research, 5G will generate up to US$6.5 trillion in market capitalization by 2028 through direct and indirect contributions and productivity improvement. ABI stressed that by 2035, 5G-connected cities will generate US$17 trillion in market capitalization for the US economic growth.

5.4.3 Competitive Niche

Providing All Round Telecom Broadband Solutions

In many years, Sercomm devotes to the innovative research and development in the field of telecom broadband, and focuses on research and development of new communication technologies in order to strengthen our core competitive advantages. Furthermore, we constantly release innovative products ahead of our competitors in the same industry. With our strong research and development team, the Company has excellent performance in integrated development in software, hardware and firmware. We also strive to optimize the effectiveness, functions and cost structure of our products. With the our optimized and competitive design, firmware and hardware from the beginning to the product production, comprehensive testing, quality guaranteed at manufacturing, global technical support and network level management technology after sales, Sercomm provides all around telecom broadband solutions to meet different clients’ needs. The excellent innovation research and development result also earned Sercomm affirmation from first-tier international clients and made us the major development partner.

Concentration on the Research and Development of Internet Protocol

On Secomm's basis of research and development in software and firmware, it is devoted to the research and development of core technologies of Internet Protocol in the beginning of its establishment. Meanwhile, it continues to accumulate intellectual properties to create differentiation in values and improve the Company's competitiveness. In response to the new era of digital convergence, the Company will continue to create, research and develop to apply new broadband technologies in all aspects of life and to assist our clients to gain more market share with excellent software integration technologies used to improve the hardware products' added values.

High Efficiency Manufacturing System of Advanced Manufacturing Process

Our factories are equipped with the series of advanced manufacturing processes and automatic equipment. By using a highly efficient operation management system, we continue to improve our manufacturing yield. Because of the great benefits of economies of scale, the manufacturing process can sufficiently utilize each area's complete electronic parts supply chain to timely provide clients broadband solutions that has effect and cost competitiveness and to improve the client's market advantages. In response to the blooming business opportunities brought by mobile broadband, the entire production ability will continue to expand to further elevate the Company's business scale and to sufficiently prepare for future growth.

Lowering the Possibility of Sudden Crises by Utilizing All Hedging Instrument

Sercomm purchased account payable insurance, where more than 90% of accounts payable are covered by insurance to prevent clients' payment failures. We also purchased directors' and supervisors' liability insurance, product liability insurance, transportation insurance, and property insurance. Furthermore, we utilize forward contract to avoid risks of exchange rate changes to enable the Company could conservatively respond to all risks in business operation.

Insistence on Quality Management and Environmental Sustainability

Efficient production and quality management have always been insisted by the Company. The rigorous quality control process commences from the material procurement, which lays a good foundation for superior quality. Meanwhile, we have established a designated environmental materials testing laboratory to ensure that the materials and parts do not contain 6 major environmental restricted substances. Products of the entire series comply with safety standards of multiple countries and our factories in two places have passed many international standard certification, including ISO9001, ISO14001, TL9000, OHSAS18001, RoHS and C-TPAT. Good quality guarantee system, except for pro-active prevention of quality issues, we conduct all around rigorous examinations on production lines to achieve high quality and high efficiency production.

5.4.4 Positive and Negative Factors in Long-Term Development

(A) Positive Factors

a. High level of flexibility in product combinations

As Sercomm considers its own long-term development strategy and market positioning, the path forward points towards an operational mode of placing equal emphasis on both commodity and niche products, consolidating the existing market and customers, and pursuing a stable growth of operations. The Company's business strategy will be to make timely adjustments in relation to the growth of the profits and revenue, and thereby expand its economic scale and enhance its market position. Sercomm's business portfolio is divided into large-scale volume production of lower-margin products and custom higher-margin niche products. It is Sercomm's intention to maintain a business model that balances volume commodity/niche products after taking the Company's long-term strategy and market positioning into account. Primary focus is given to consolidating existing markets and customers with the goal of pursuing steady growth while maintaining profit margins. This approach is aimed at strengthening and reinforcing the Company's operations. The Company's business strategy will also adjust profits and revenues as necessary in order to build up Sercomm's economies of scale and boost its market standing.

b. System integration ability

For many years, Sercomm devoted to research, development and integration ability. Through differentiation strategy, the Company grows a role in global telecommunications industry and builds a long-term partnership with international operators. The Company invests research and development resources to co-develop with our clients in the initial stage of design for many new technologies and new products due to our commitment and sense of responsibility to our clients. Meanwhile, we improve customer satisfaction by optimizing the efficiency and quality in manufacturing, quality control and customer service.

c. Advantage of Sufficient Application of AI Manufacturing

Our factories are equipped with a full range of advanced process and automation equipment, and continue to improve manufacturing yield through a high-efficiency operations management system. Due to economies of scale, our manufacturing processes can make full use of the complete supply chains for electronic components in each region, allowing us to immediately provide customers with efficiency and cost-competitive broadband solutions, thereby enhancing customers' market advantage.

d. Transformation of Business Model

Sercomm has provided comprehensive telecom broadband solutions by utilizing its distinguished ability in system integration. Telecommunication direct sales model has been adopted successfully which propelled us to become the long-term technical partner with the telecom operators. In addition, Sercomm has successively built technical teams in major markets around the world to keep abreast of the needs of telecommunication clients and provide immediate technical support, thereby further increasing our market share in the telecommunications industry.

e. Diversity and International Talents

Sercomm has over 10 locations in North America, Central and South America, Northeast Asia, Southeast Asia, South Asia, and Europe, with over 6,000 employees of up to 20 nationalities worldwide, in order to provide customers nearby with technical support services. As we develop under the culture of diversity, we not only put the right person in the right position, but also hope to uncover nurture more potential talents through the injection of a diverse range of resources, in order to welcome the future of 5G innovation.

(B) Unfavorable Factors and Countermeasures

Due to the impact of the COVID-19 pandemic on global economic activities, working from home, distance education, and remote monitoring have become the current trend, thereby driving demand for bandwidth upgrade. Although the pandemic has affected part of our production capacity, our overall operations are still demonstrating a stable performance, while some of those which are unable to meet orders will result in delayed shipments. At the same time, Sercomm continues our global expansion plan by rapidly setting up multiple production locations, such that the Group's production capacity is connected to those in Suzhou, Taiwan, and the Philippines, in order to meet shipment needs with flexible manufacturing configurations. In addition, Sercomm has incorporated a smart management system to improve the operational efficiency of upstream and downstream supply chains and effectively control management costs.

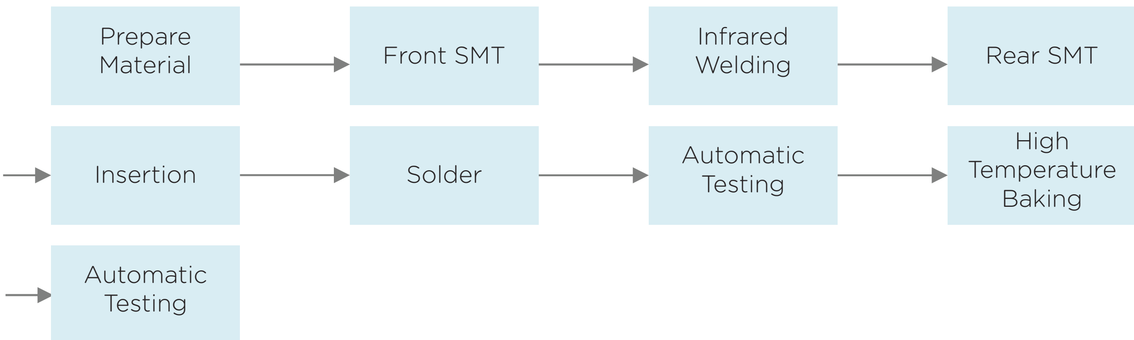
5.5 Main Product Applications

With its strength in integration of network communication products accumulated after many years, Sercomm has not only become the leading supplier of world-class WLAN equipment but also controls the critical technology for Next-Generation Networks after the continuous R&D in network communication technology. To deal with the emerging network applications integrated into homes, Sercomm created value-added network communication products with its high-level software and hardware product integration technology. The whole series of high-performance, high-quality and diversified professional broadband network communication products include broadband network communication access points, Integrated Access Device, Enterprise & SMB products, FTTx Products and Smart Home Control/ Surveillance. No matter whether at home or in the office, they may satisfy customers' demands for diversified and all-in-one digital integration network communication.

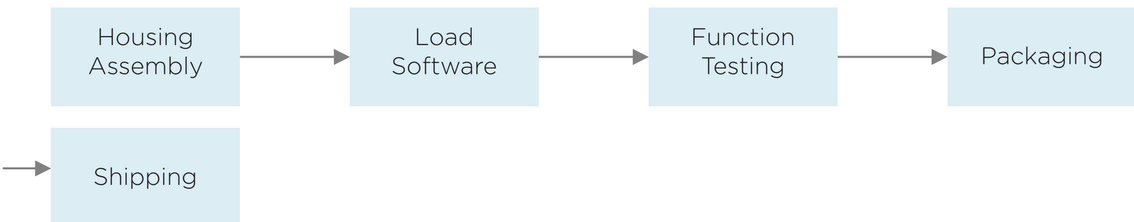
5.5.1 Product Manufacturing Process

The manufacturing processes for our Company's products are divided into PCB assembly and final product assembly.

PCB assembly includes the SMT process and the DIP insertion process. The process is as follows:



The final product assembly process is as follows:



5.5.2 Customers that Accounted for at Least 10% of Annual Consolidated Net Revenue

Unit: Thousand NTD

2018				2019				2020 First Quarter			
Customers	Sales Revenue	As % of 2018 Total Net Revenue	Relations to Sercomm	Customers	Sales Revenue	As % of 2019 Total Net Revenue	Relations to Sercomm	Customers	Sales Revenue	As % of 2020 Q1 Total Net Revenue	Relations to Sercomm
Customer A	7,813,763	23.41	None	Customer A	6,152,991	19.35	None	Customer A	1,391,639	20.46	None
Customer B	3,411,821	10.22	None	Customer B	3,827,594	12.04	None	Customer C	706,068	10.38	None
Others	22,159,357	66.37		Others	21,816,545	68.61		Others	4,704,280	69.16	
Total Sales Revenue	33,384,941	100.00		Total Sales Revenue	31,797,130	100.00		Total Sales Revenue	6,801,987	100.00	

Production – A

Unit: Unit / Thousand NTD

Main Products	2018			2019		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Wired Product	10,000,000	5,256,841	2,696,116	10,000,000	6,370,385	3,267,228
Wireless Product	28,000,000	24,959,043	25,740,562	30,000,000	21,326,943	22,894,396
Total	38,000,000	30,215,884	28,436,678	40,000,000	27,697,328	26,161,624

Production – B

Unit: Unit / Thousand NTD

Main Products	2018				2019			
	Export		Domestic		Export		Domestic	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Wired Product	5,087,392	3,563,470	15,926	14,458	5,911,711	4,006,004	10,950	10,633
Wireless Product	23,917,841	29,745,476	21,660	61,537	18,639,639	27,771,898	503	8,595
Total	29,005,233	33,308,946	37,586	75,995	24,551,350	31,777,902	11,453	19,228

5.6 Environmental Expenditure

Total value of losses or penalties due to environmental pollution in the most recent year and up to the date of publication: None

Future response strategies and potential expenditure

The Company belongs to the electronic high-tech industry, and the major production process is assembly, testing and packing of finished and semi-finished products. There is no release of wastewater and air pollution during the production process, and the noise is minimal without public nuisance also without the restriction and violation against relevant environmental laws and regulations. According to the waste management policies and procedures, Sercomm improves waste reduction and pollution prevention in order to achieve the goal of green design, production and management.

Based on the balance between environmental protection and sustainable operations of the Company, Sercomm is actively devoted to the global environmental protection project. We not only introduced the strict non-lead production process in all aspects, and excluded restricted substances by adopting "green design" in the research and development stage, but also achieved the goal of lowering environmental impact by complying with the 3R principles(reduce, recycle and reuse) set by EU. In the meantime, we extended our requirements for environmental protection to parts and raw materials through "green procurement" and introduce the management and evaluation of green product management of suppliers. Through the green procurement, Sercomm extends the environmental protection requirements to components, product utilization process and disposition of the waste in order to comply with the international environmental protection standards and to fulfill the green manufacturing policy.

5.7 Employer-employee Relationships

5.7.1 Employees

Year		2018	2019	2020/04/30
Headcount		4,254	4,451	4,255
Average Age		33.2	32.6	32.7
Average Seniority (years)		4.6	4.0	4.3
As Total Employees %	Ph. D.	0.00%	0.00%	0.00%
	Master	10.00%	11.00%	12.00%
	College	43.00%	48.00%	51.00%
	Senior High School	43.00%	43.00%	36.00%
	Junior High School or Lower	4.00%	2.00%	2.00%

The implementation of an employee welfare policy, continuing education and training, retirement system, and labor-management coordination and the protection of the rights of the employees:

Employee welfare policy

The Company provides the National Health Insurance, labor insurance and group insurance in accordance with Labor Standards Act and relevant laws /regulations to increase the protection of the rights of the employees. The premiums are undertaken by the Company. Additionally, budget is planned every year for employees' education and training. The Company established the Employee Welfare Committee, which was approved by the Department of Labor, Taipei City Government in October 1996.

For compensation & benefits, not only marriage, funeral and maternity subsidies are provided to employees, but also Company outings and various recreational activities are regularly organized for employees with physical and mental relaxation.

Learning and Development

Sercomm believes that it is the responsibility of the Company to provide appropriate educational and training opportunities for employees, and to encourage the self-training of employees so that they can continue to realize their potential. Therefore, the Company's consistent policy is to improve its staff's skills through various training and development programs so that the performance of its employees will not only meet the Company's business needs, but also help them achieve their personal goals. The Company has an education and training system, and prepares an annual budget for colleagues' education and training. In 2019, the number of employees who engaged in advanced study was 27,616, and the number of man hours was 58,261 hours.

Pension plan and implementation situation

The Company has formulated a pension plan for the employees who are formally employed, and since February 4, 1997 has maintained a Business Entity Supervisory Committee of Labor Retirement Reserve in accordance with the Labor Standards Act. It appropriates labor pension reserve funds at a certain percentage of the total monthly wages of the Company's employees and deposits this amount in a designated pension fund account at the Central Trust of China.
The Labor Pension Act came into force in July 1, 2005, and adopted a defined contribution plan. As a result of the implementation of the Act, employees may choose to apply the provisions in respect to pensions prescribed in the Labor Standards Act. The amount of labor pension borne by the employer shall not be less than six percent of the worker's monthly wage.

Labor-management consultation

The rights and obligations of both parties of the workers and employers shall be governed by the Labor Standards Act and its relevant laws and regulations, as well as the provisions of the Company's administrative regulations. Since its establishment the Company has maintained good worker-employer relationships. In order to maintain good worker-employer relationships, the Company implements a humanistic management approach and works hard to strengthen two-way communication between employees and the employer to create a better future.

Employee interests maintenance measures

The Company established a labor retirement reserve fund committee and holds worker-employer coordination meetings with the labor representatives elected by the employees to discuss relevant affairs and operations. Meanwhile, the Company provides employees with health examinations every two years and, for staff engaged in special operations, adds special health examination items. The Company also established and promulgated the Sexual Harassment Prevention Act, and grants employees paternity leave and unpaid parental leave in accordance with the Gender Equality in Employment Act. For employees whose work is not considered satisfactory, the Company will give them appropriate work improvement plans, and if they fail to meet the job requirements again, will transfer them to other positions depending on the actual situation, or will proceed with the termination of their employment according to the law.

VI. Financial Review and Analysis

6.1 Condensed Balance Sheet—IFRSs (Consolidated)

Unit: Thousand NTD

Item		2015	2016	2017	2018	2019	As of March 31, 2020
Current Assets		18,029,817	19,472,018	20,457,851	18,891,528	21,424,452	19,609,580
Property, Plant and Equipment		3,380,603	3,265,690	3,248,680	3,250,139	2,995,622	3,185,411
Intangible Assets		307,021	285,607	297,551	359,339	341,323	381,042
Other Assets		810,542	755,738	763,364	866,820	1,415,683	1,362,671
Total Assets		22,527,983	23,779,053	24,767,446	23,367,826	26,177,080	24,538,704
Current Liabilities	Before Distribution	15,328,506	16,141,585	17,304,180	16,060,512	15,656,189	14,166,608
	After Distribution	16,256,848	17,161,848	18,225,382	16,672,751	-	-
Noncurrent Liabilities		261,842	280,400	236,970	297,538	2,844,892	2,821,966
Total Liabilities	Before Distribution	15,590,348	16,421,985	17,541,150	16,358,050	18,501,081	16,988,574
	After Distribution	16,518,690	17,442,248	18,462,352	16,970,289	-	-
Equity Attributable to Shareholders of the Parent							
Capital Stock		2,413,636	2,429,198	2,456,538	2,456,538	2,490,548	2,490,548
Capital Surplus		1,529,471	1,617,572	1,764,717	1,800,214	1,938,152	1,938,152
Retained Earning	Before Distribution	2,637,393	3,158,215	3,443,101	3,331,273	3,754,633	3,841,192
	After Distribution	1,709,051	2,137,952	2,521,899	2,719,034	-	-
Others		358,567	153,979	-412,962	-381,413	-508,626	-666,100
Treasury Shares		0	0	0	-196,383	0	-56,077
Noncontrolling Interests		-1,432	-1,896	-25,098	-453	1,292	2,415
Total Equity	Before Distribution	6,937,635	7,357,068	7,226,296	7,009,776	26,177,080	7,550,130
	After Distribution	6,009,293	6,336,805	6,305,094	6,397,537	-	-

6.2 Condensed Balance Sheet—IFRSs (Unconsolidated)

Unit: Thousand NTD

Item		2015	2016	2017	2018	2019
Current Assets		7,509,151	8,740,147	8,297,609	9,333,085	12,106,532
Property, Plant and Equipment		1,514,622	1,628,637	1,666,095	1,635,663	1,568,298
Intangible Assets		197,796	196,862	268,732	331,460	311,015
Other Assets		4,986,770	5,187,526	5,791,181	6,155,688	6,457,336
Total Assets		14,208,339	15,753,172	16,023,617	17,455,896	20,443,181
Current Liabilities	Before Distribution	7,011,002	8,122,086	8,526,012	10,134,669	10,072,829
	After Distribution	7,939,344	9,142,349	9,447,214	10,746,908	-
Noncurrent Liabilities		258,270	272,122	246,211	310,998	2,695,645
Total Liabilities	Before Distribution	7,269,272	8,394,208	8,772,223	10,445,667	12,768,474
	After Distribution	8,197,614	9,414,471	9,693,425	11,057,906	-
Equity Attributable to Shareholders of the Parent						
Capital Stock		2,413,636	2,429,198	2,456,538	2,456,538	2,490,548
Capital Reserve		1,529,471	1,617,572	1,764,717	1,800,214	1,938,152
Retained Earning	Before Distribution	2,637,393	3,158,215	3,443,101	3,331,273	3,754,633
	After Distribution	1,709,051	2,137,952	2,521,899	2,719,034	-
Others		358,567	153,979	-412,962	-381,413	-508,626
Treasury Shares		0	0	0	-196,383	0
Noncontrolling Interests		0	0	0	0	0
Total Equity	Before Distribution	6,939,067	7,358,964	7,251,394	7,010,229	7,674,707
	After Distribution	6,009,293	6,338,701	6,330,192	6,397,990	-

6.3 Condensed Statement of Income—IFRSs (Consolidated)

Unit: Thousand NTD

Item	2015	2016	2017	2018	2019	As of March 31, 2020
Operating Revenue	35,011,966	36,701,734	38,600,003	33,384,941	31,797,130	6,801,987
Gross Profit From Operations	4,983,969	5,368,728	5,027,843	4,477,652	5,079,038	975,022
Net Operating Income	1,664,706	1,770,910	1,534,204	900,461	986,902	108,252
Non-operating Income and Expenses	-81,391	31,873	49,354	129,959	291,000	-4,097
Income Before Tax	1,583,315	1,802,783	1,583,558	1,030,420	1,277,902	104,155
Net Income	1,297,000	1,455,295	1,288,158	848,305	1,034,567	87,669
Other Comprehensive Income	12,380	-208,929	-573,152	33,265	-109,955	-157,461
Total Comprehensive Income	1,309,380	1,246,366	715,006	881,570	924,612	-69,792
Net Income, Attributable to Owners of Parent	1,304,508	1,461,654	1,311,868	807,586	1,032,953	86,559
Net Income, Attributable to Non-controlling of Interests	-7,508	-6,359	-23,710	40,719	1,614	1,110
Comprehensive Income Attributable to Owners of Parent	1,316,902	1,252,556	738,208	840,922	923,032	-70,915
Comprehensive Income Attributable to Non-controlling of Interests	-7,522	-6,190	-23,202	40,648	1,580	1,123
Basic Earnings per share	5.57	6.02	5.38	3.32	4.21	0.35

6.4 Condensed Statement of Income—IFRSs (Unconsolidated)

Unit: Thousand NTD

Item	2015	2016	2017	2018	2019
Operating Revenue	25,807,240	27,842,239	29,285,814	26,573,478	26,744,107
Gross Profit From Operations	2,621,986	3,001,062	2,773,723	2,512,969	3,363,335
Net Operating Income	735,810	927,979	831,798	472,372	938,523
Non-operating Income and Expenses	676,802	717,016	605,319	487,734	270,590
Income Before Tax	1,412,612	1,644,995	1,437,117	960,106	1,209,113
Net Income	1,304,508	1,461,654	1,311,868	807,586	1,032,953
Other Comprehensive Income	12,394	-209,098	-573,660	33,336	-109,921
Total Comprehensive Income	1,316,902	1,252,556	738,208	840,922	923,032
Basic Earnings per share	5.57	6.02	5.38	3.32	4.21

6.5 Financial Analysis—IFRSs

Item		2015		2016		2017		2018		2019		As of March 31, 2020
		Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Consolidated
Financial Ratio (%)	Total Liabilities to Total Assets	51.16	69.20	53.29	69.06	54.75	70.82	59.84	70.00	62.46	70.68	69.23
	Long-term Funds to Property, Plant, Equipment	475.19	212.96	468.56	233.87	450.01	229.73	447.60	224.83	661.25	351.21	325.61
Liquidity (%)	Current Ratio	107.11	117.62	107.61	120.63	97.32	118.22	92.09	117.63	120.19	136.84	138.42
	Quick Ratio	63.30	81.44	70.25	84.86	63.55	82.25	68.00	85.20	79.64	97.03	92.48
	Time Interest Earned	41.42	22.17	37.16	25.96	27.13	27.66	14.53	15.24	14.78	14.17	6.10
Operating Performance	AR Turnover (Times)	14.64	6.40	9.17	5.38	8.00	5.38	7.26	4.86	7.37	5.18	5.13
	AR Turnover (Days)	24.94	57.02	39.78	67.89	45.63	67.84	50.25	75.12	49.50	70.47	71.21
	Inventory Turnover (Times)	10.29	6.67	8.60	5.76	9.61	5.80	9.70	5.22	7.67	4.89	3.85
	AP Turnover (Times)	8.46	3.80	7.46	3.25	7.08	3.13	5.44	2.71	4.23	2.60	2.35
	Inventory Turnover (Days)	35.47	54.69	42.43	63.35	37.98	62.93	37.62	69.99	47.58	74.60	94.79
	Property, Plant, Equipment Turnover (Times)	16.93	10.45	17.72	11.04	17.78	11.88	16.10	10.27	16.69	10.18	8.80
	Total Assets Turnover (Times)	2.03	1.73	1.86	1.59	1.84	1.55	1.59	1.39	1.41	1.28	1.07
Profitability	Return on Assets (%)	10.48	6.71	10.01	6.54	8.54	5.50	5.16	3.77	5.82	4.49	1.64
	Return on Equity (%)	20.08	19.96	20.45	20.36	17.96	17.66	11.33	11.92	14.07	14.09	4.61
	Pre-Tax Income to Pay-in Capital(%)	58.53	65.60	67.72	72.90	58.5	64.46	39.08	41.95	48.55	51.31	16.73
	Net Income / Sales (%)	5.05	3.70	5.25	3.97	4.48	3.33	3.04	2.54	3.86	3.25	1.29
	EPS (NTD)	5.57	5.57	6.02	6.02	5.38	5.38	3.32	3.32	4.21	4.21	0.35
Cash Flow	Cash Flow Ratio (%)	-1.34	10.38	4.26	15.45	4.06	14.69	11.38	5.10	4.34	9.35	1.14
	Cash Flow Adequacy Ratio (%)	45.55	69.58	42.5	88.06	46.7	79.80	49.20	83.12	45.04	89.99	97.97
	Cash Reinvestment Ratio (%)	-10.42	10.13	-7.31	16.14	9.31	17.05	3.06	-1.11	- 1.68	7.09	1.29
Leverage	Operating Leverage	4.41	3.00	3.90	2.97	4.42	3.42	5.42	3.89	3.20	3.50	3.47
	Financial Leverage	1.05	1.05	1.05	1.04	1.07	1.04	1.18	1.09	1.10	1.11	1.23

1. Financial Ratio
   (1) Total Liabilities to Total Assets = Total Liabilities / Total Assets
   (2) Long-term Funds to Property, Plant, and Equipment = (Total Equity + Non-current Liabilities) / Property, Plant, and Equipment

2. Ability to Pay Off Debt
   (1) Current Ratio = Current Assets / Current Liability
   (2) Quick Ratio = (Current Assets - Inventory - Prepaid Expenses) / Current Liability
   (3) Interest Protection = Net Income Before Income Tax and Interest Expense / Interest Expense

3. Ability to Operate
   (1) Account Receivable (including Account Receivable and Notes Receivable from Operation) Turnover = Net Sales / the Average of Account Receivable (including Account Receivable and Notes Receivable from Operation) Balance
   (2) A/R Turnover Day = 365 / Account Receivable Turnover
   (3) Inventory Turnover = Cost of Goods Sold / the Average of Inventory
   (4) Account Payable (including Account Payable and Notes Payable from Operation) Turnover = Cost of Goods Sold / the Average of Account Payable (including Account Payable and Notes Payable from Operation) Balance
   (5) Inventory Turnover Day = 365 / Inventory Turnover
   (6) Fixed Assets Turnover = Net Sales / Net Fixed Assets
   (7) Total Assets Turnover = Net Sales / Total Assets

4. Earning Ability
   (1) Return on Assets = 〔PAT + Interest Expense×(1 - Interest Rate)〕 / the Average of Total Assets
   (2) Return on Equity = PAT / the Average of Net Equity
   (3) Net Income Ratio = PAT / Net Sates
   (4) EPS = (Profit Attributable to Owners of Parent - Dividend from Prefer Stock) / Weighted Average Outstanding Shares

5. Cash Flow
   (1) Cash Flow Ratio = Cash Flow from Operating Activities / Current Liability
   (2) Net Cash Flow Adequacy Ratio = Most Recent 5-year Cash Flow from Operating Activities / Most Recent 5-year (Capital Expenditure + the Increase of Inventory + Cash Dividend)
   (3) Cash Investment Ratio = (Cash Flow from Operating Activities - Cash Dividend) / (Property, Plant, and Equipment + Long-term Investment + Other Non-current Assets + Working Capital)

6. Leverage
   (1) Operating Leverage = (Net Revenue - Variable Cost of Goods Sold and Operating Expense) / Operating Income
   (2) Financial Leverage = Operating Income / (Operating Income - Interest Expenses)

6.6 2019 Audit Committee's Review Report

Audit Committee's Review Report

The Board of Director has prepared the Company's 2019 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Pricewaterhouse Coopers(PwC) Taiwan was retained to audit Sercomm's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Comaumittee members of Sercomm Corporation. According to Article 219 of the Company Law, we hereby submit this report.

To Sercomm Corporation 2020 Annual Shareholders' Meeting

Chairman of the Audit Committee
Steve K. Chen

March 18, 2020

6.7 Financial Status and Operating Results

6.7.1 Financial Position

Unit: Thousand NTD

Item	2018	2019	Difference	Change
Current Assets	18,891,528	21,424,452	2,532,924	13.41%
Non-Current Assets	4,476,298	4,752,628	276,330	6.17%
Total Assets	23,367,826	26,177,080	2,809,254	12.02%
Current Liabilities	16,060,510	15,656,189	-404,323	-2.52%
Non-Current Liabilities	297,538	2,844,892	2,547,354	856.14%
Total Liabilities	16,358,048	18,501,081	2,143,033	13.10%
Capital Stock	2,456,538	2,490,548	34,010	1.38%
Capital Surplus	1,800,214	1,938,152	137,938	7.66%
Retained Earnings	3,331,275	3,754,633	423,358	12.71%
Other Equity	-381,413	-508,626	-127,213	33.35%
Total Shareholders' Equity	7,009,778	7,675,999	666,221	9.50%

– Analysis of Deviation over 20%：

- Increase in non-Current Liabilities：The increase in due to NT$ 2.3 billion corporate bond issuance.
- Increase in other equity：The increase was mainly due to increase in currency exchange loss arising from translation of foreign operations in 2019.

6.7.2 Operating Results

Unit: Thousand NTD

Item	2018	2019	Difference	Change
Operating Revenues	33,384,941	31,797,130	-1,587,811	-4.76%
Operating Costs	28,907,289	26,718,092	-2,189,197	-7.57%
Gross Profit from Operations	4,477,652	5,079,038	601,386	13.43%
Operating Expenses	3,577,191	4,092,136	514,945	14.40%
Operating Profit	900,461	986,902	86,441	9.60%
Non-Operating Income and Expenses	129,959	291,000	161,041	123.92%
Income before Tax	1,030,420	1,277,902	247,482	24.02%

– Analysis of Deviation over 20%：

- Increase in non-operating income and expenses：The increase was mainly from investment gain.
- Increase in income before tax：The increase was mainly due to gross profit gain.

6.7.3 Cash Flow Analysis

Item	2018	2019	Change
Cash Flow Ratio (%)	5.10	9.35	83.33%
Cash Flow Adequacy Ratio (%)	83.12	89.99	12.77%
Cash Reinvestment Ratio (%)	- 1.11	7.09	738.74%

6.7.4 Projected Cash Flow

Unit: Thousand NTD

Beginning Cash Balance	Cash Flows from Operating Activities	Cash Flows from Investing & Financing Activities	Projected Ending Cash Balance	Source of Funding for Cash Shortfall	
				Investing Plan	Financing Plan
7,274,715	1,399,076	1,673,704	7,000,087	-	Issuing Bond

- Analysis of Cash Flow：
  - NT$1,399,076 thousand net cash generated by operating activities: mainly from increase in gross margin, account receivable day and depreciation and amortization expense
  - NT$1,289,632 thousand net cash used in investing activities: primarily for purchase fixed asset, intangible asset and long term investment strategy
  - NT$384,072 thousand net cash used in financing activities: primarily for cash dividend payment, inflow from bond capital and repay bank loan
- Remedial Actions for Liquidity Shortfall：None

6.7.5 Long-term Investment Policy and Results

Sercomm's investments are focused on long-term strategic purposes. However, when we evaluate that an investment no longer has significant strategic value, we may view it as a financial investment. Sercomm's profits from investments accounted for using the equity method in 2019 was NT$103,096,000, a decline of NT$500,036,000 from 2018. This was mainly due to the expansion in the US office for furture planning. And strengthening R&D and equipment in China, thus affecting gross profit and costs, which eventually led to profit reduction. In the future, Sercomm will continue to focus on long-term strategic investments and closely evaluate investment plans.

6.8 Risk Management

Interest Rate Fluctuation

The effect on income may be categorized into that on the revenue and on capital cost. For the interest revenue, Sercomm focuses the evaluation on low-risk and high-liquidity investment, and deposits residual capital at bank under time deposit, and mitigates the impact produced by interest rate fluctuation in a conservative and stable manner. Accordingly, the future financial management policy remains unchanged. For the capital cost, Sercomm's bank loan and payable leasehold payment are referred to as the debt subject to floating interest rate. Therefore, the market interest rate fluctuation, if any, will result in fluctuation of the effective interest rate for the bank loan and payable leasehold payment and thereby cause the future cash flow to fluctuate. Notwithstanding, upon evaluation, the interest rate fluctuation renders no material effect on the fluctuation of Sercomm's income.

Foreign Exchange Volatility

In recent years, export sales of Sercomm products have accounted for at least 90% of our total revenue. Hence, exchange rate risk arises from the purchase or sales of goods denominated in non-functional currencies. However, Sercomm adopts the principles of natural hedging and uses forward exchange contracts to hedge against exchange rate risk. Forward exchange contracts involve the purchase or sale of foreign currencies that are similar to those of the hedged items. Therefore, Sercomm mainly adopts natural hedging and forward exchange contracts to respond to the impact of changes in exchange rates. The relevant response measures are listed as follows:

A. Pay attention to domestic and overseas political and economic situation at all times to quickly keep abreast of developments in the foreign exchange market, and control whether the payment of account receivables and payables is to be brought forward or delayed according to the movement of denominated currencies.

B. Consider factors affecting fluctuations in exchanges rates when quoting customers and negotiating purchase conditions, in order to protect our reasonable profits and costs.

C. Establish natural hedging for the long or short position held and try to use the same currency for both purchases of goods and business quotations to reduce currency translation risk.

D. Regularly estimate the requirements for net position of imports and exports in foreign currencies, analyze domestic and foreign economic and trade-related information and recommendations from correspondent banks, study the trend of foreign exchange markets, hedge against risks through forward exchange contracts in accordance with the procedures stipulated in the "Procedures for Acquisition of Disposal of Assets."

Inflation

Sercomm's materials whose costs are directly and indirectly affected by fluctuations in raw material prices include CPU, SDRAM, FLASH, PCB, module, connector, and other important parts. In terms of selling price, Sercomm's products are custom-made rather than standardized products with high homogeneity, and are differentiated products tailor-made to meet customer needs, so Sercomm enjoys a more advantageous position when it comes to product pricing and bargaining with customers. In order to reduce the impact of factors affecting price fluctuations on our profits, we take the following response measures:

A. Strengthen cost control (design to cost) from the R&D stage; introduce modular design and converge specifications for purchases of goods in the design part; reduce procurement costs with the advantage of bulk procurement; and develop streamlined, rugged, and practical structural designs with core technical advantages in the mechanism design part to reduce the volume and weight of mechanisms and minimize the consumption of metal and plastic parts.

B. Implement policy-based project procurement plan for raw materials that are expected to experience large fluctuations in market prices, shortages or price hikes to ensure the smooth supply of raw materials and effective control of material costs.

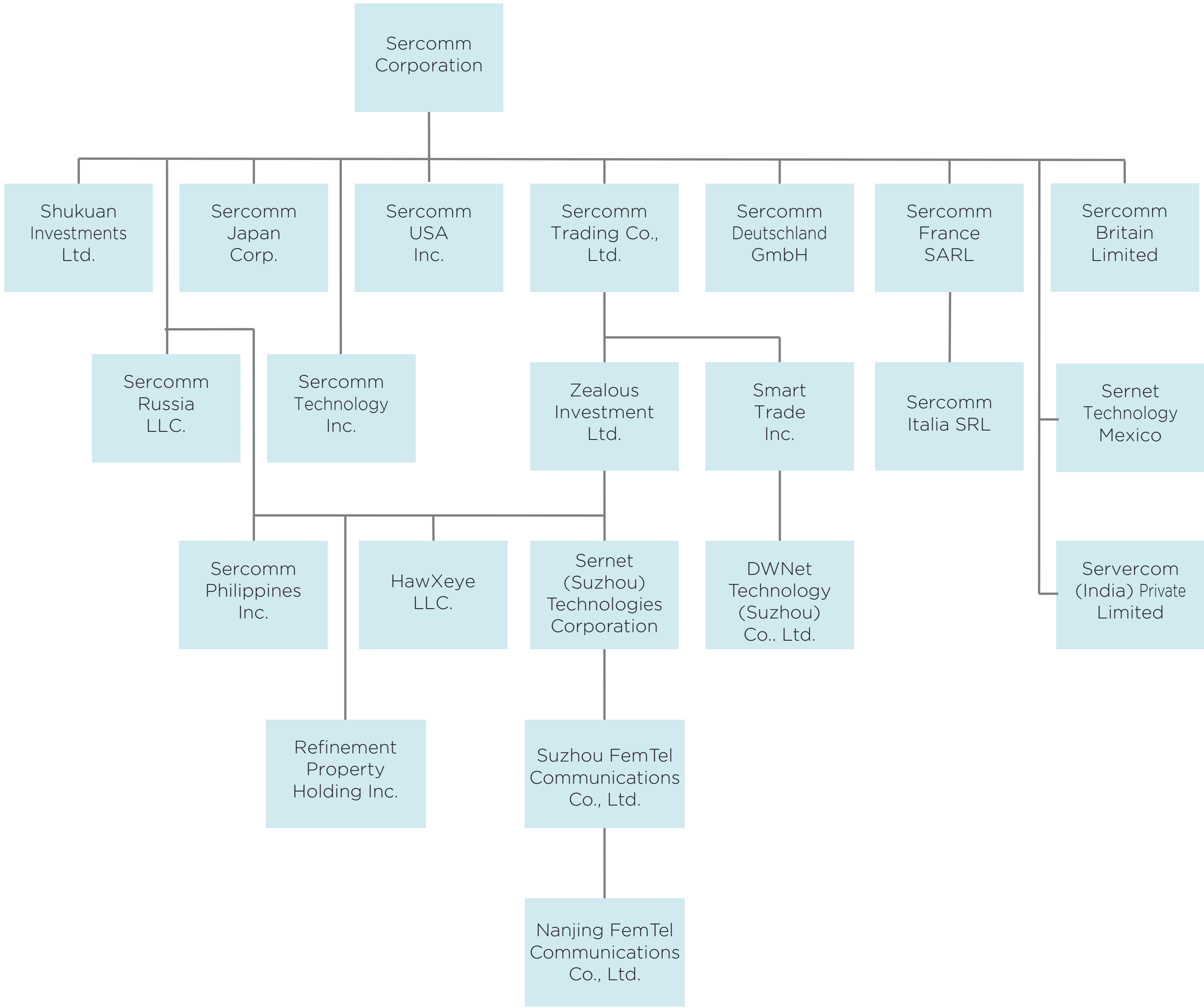
C. Analyze the cost structure of manufacturers' quotations, assist suppliers in improving efficiency and reducing losses to reduce costs, as well as provide forecast to improve the visibility of procurement needs, increase manufacturers' willingness to cooperate, and increase bargaining chips for negotiation.

D. Continue to strengthen the production, sales, and procurement information communication platform, accelerate the speed of response to market information, and adjust procurement plans and sales quotations in a timely manner.

VII. Special Disclosures

7.1 Subsidaries

7.1.1 Affiliated Companies Chart



7.1.2 Affiliated Companies

Company	Date of Incorporation	Paid-in Capital	Major Business
Sercomm USA Inc	1996/09/25	USD$ 650,000	Sales of IT Products
Shukuan Investments Ltd.	2002/12/31	NTD$ 28,000,000	Investment Activity
Sercomm Trading Co., Limited	2002/06/24	USD$ 46,800,000	Overseas Investment
Zealous Investments Ltd.	1999/08/12	USD$ 30,956,000	Overseas Investment
Sernet (Suzhou) Technologies Corporation	2000/02/18	USD$ 29,900,000	R&D and Manufacturing Center of Routers, Operating Systems and Networking Related System
Smart Trade Inc.	2003/03/21	USD$ 16,000,000	Overseas Investment
DWNet Technology (Suzhou) Co., Ltd.	2004/01/14	USD$ 16,000,000	R&D Center and Sales Office of Routers, Operating Systems and Networking Related System
Sercomm Japan Corp.	2010/03/15	JPY$ 490,000,000	Sales of IT Products and International Trading
Sercomm France SARL	2011/01/27	EUD$ 100,000	Sales of IT Products and International Trading
Sercomm Italia SRL	2012/02/21	EUD$ 10,000	Sales of IT Products and International Trading
Sercomm Deutschland GmbH	2012/06/29	EUD$ 100,000	Sales of IT Products and International Trading
Sercomm Russia LLC.	2013/04/18	RUB$ 28,948,000	Sales of IT Products and International Trading
HawXeye Inc.	2015/04/23	USD$286,000	Development of advanced image analysis technology
Suzhou FemTel Communications Co., Ltd.	2009/11/20	RMB$ 6,500,000	Telecom equipment, software development and provide related technology service
Nanjing FemTel Communications Co., Ltd.	2013/01/16	RMB$ 2,500,000	Telecom equipment, software development and provide related technology service
Sercomm Technology Inc.	2018/08/29	USD$5,000,000	Sales of IT Products and International Trading
Sercomm Philippines Inc.	2019/03/22	PHP$ 313,897,000	Manufacturing Center and Sales Office of Routers, Operating Systems and Networking Related System
Sercomm Britain Limited	2019/06/04	GBP$ 350,000	Sales of IT Products and International Trading
Refinement Property Holding Inc.	2019/09/26	PHP$ 200,000	Real Estate Investment
Sernet Technology Mexico S. de R.L. de C.V.	2019/10/09	MXN$ 400,000	Sales of IT Products and International Trading
Servercom (India) Private Limited	2019/12/06	INR$ 50,000,000	Manufacturing Center and Sales Office of Routers, Operating Systems and Networking Related System

7.1.3 Directors, Supervisors and Presidents of Affiliated Companies

Company	Title	Name / Representative	Shareholdings	
			Investment Amount	%
Sercomm USA Inc	Owner	Paul Wang	650,000 shares	100.00%
Shukuan Investments Ltd.	Owner	James Wang	2,800,000 shares	100.00%
Sercomm Trading Co., Limited	Owner	James Wang	USD$ 46,800,000	100.00%
Zealous Investments Ltd.	Owner	James Wang	USD$ 30,956,000	100.00%
Sernet (Suzhou) Technologies Corporation	Owner	Vincent Han	USD$ 29,900,000	100.00%
Smart Trade Inc.	Owner	Ben Lin	USD$ 16,000,000	100.00%
DWNet Technology (Suzhou) Co., Ltd.	Owner	Vincent Han	USD$ 16,000,000	100.00%
Sercomm Japan Corp.	Owner	James Wang	9,800 shares	100.00%
Sercomm France SARL	Owner	Michael Lee	1,000 shares	100.00%
Sercomm Italia SRL	Owner	Michael Lee	10,000 shares	100.00%
Sercomm Deutschland GmbH	Owner	Michael Lee	EUR$ 100,000	100.00%
Sercomm Russia LLC.	Owner	Gleb Fedorov	RUB$ 28,948,000	100.00%
HawXeye LLC.	Owner	Andy Lin	USD$ 157,000	55%
Suzhou FemTel Communications Co., Ltd.	Owner	Vincent Han	RMB$ 6,500,000	100.00%
Nanjing FemTel Communications Co., Ltd.	Owner	Denniz Wu	RMB$ 2,500,000	100.00%
Sercomm Technology Inc.	Owner	Derek Elder	5,000,000 shares	100.00%
Sercomm Philippines Inc.	Owner	Jack Yueh	PHP$ 313,897,000	99.99%
Sercomm Britain Limited	Owner	Michael Lee	GBP$ 350,000	100.00%
Refinement Property Holding Inc.	Owner	Max Cheng	PHP$ 200,000	39.99%
Sernet Technology Mexico S. de R.L. de C.V.	Owner	Eric Huang	MXN$ 400,000	99.99%
Servercom (India) Private Limited	Owner	James Wang	INR$ 50,000,000	99.99%

7.1.4 Operational Highlights of Sercomm Subsidiaries

Unit: Thousand NTD / Year 2019

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenue	Operation Income(Loss)	Net Income	Basic EPS
Sercomm USA Inc.	20,739	29,163	6,301	22,862	96,865	-2,854	-3,135	0.00
Shukuan Investments Ltd.	28,000	35,684	4	35,684	0	-38	110	0.00
Sercomm Trading Co., Limited	1,471,186	5,635,243	16	5,635,227	0	0	304,892	0.00
Zealous Investments Ltd.	989,358	4,632,402	70,169	4,562,233	0	-45,956	294,289	0.00
Sernet (Suzhou) Technologies Corporation	933,252	10,839,756	6,278,334	4,561,422	17,038,732	251,900	357,365	0.00
Smart Trade Inc.	481,829	1,072,831	0	1,072,831	0	0	10,603	0.00
DWNet Technology (Suzhou) Co., Ltd.	481,829	3,412,421	2,339,591	1,072,830	4,943,567	34,838	10,603	0.00
Sercomm Japan Corp.	157,721	106,555	110,224	-3,668	250,593	154	-1,844	0.00
Sercomm France SARL	4,004	34,078	8,559	25,519	34,659	5,789	4,485	0.00
Sercomm Italia SRL	388	7,970	4,663	3,307	29,416	1,267	892	0.00
Sercomm Deutschland GmbH	3,727	12,132	30,864	-18,732	29,649	626	-3,121	0.00
Sercomm Russia LLC.	28,948	273,266	253,122	20,144	904,308	-19,854	-126	0.00
HawXeye LLC.	4,787	29,383	25,615	3,766	0	8,938	4,887	0.00
Suzhou FemTel Communications Co., Ltd.	32,599	-1,040	13,554	-14,594	12,998	-1,734	6,392	0.00
Nanjing FemTel Communications Co., Ltd.	12,538	17,748	22,990	-5,242	32,682	8,261	8,114	0.00
Sercomm Technology Inc.	153,880	19,747	17,857	1,890	105	-118,385	-118,440	0.00
Sercomm Philippines Inc.	36,728	112,771	83,832	28,939	0	-6,729	-6,744	0.00
Sercomm Britain Limited	13,535	8,205	6,000	2,204	0	-11,621	-11,621	0.00
Refinement Property Holding Inc.	119	43,362	44,028	-666	0	-968	-968	0.00
Sernet Technology Mexico S. de R.L. de C.V.	0	0	8,500	-8,500	0	-8,500	-8,500	0.00
Servercom (India) Private Limited	0	0	0	0	0	0	0	0.00

TWSE:5388

SERCOMM CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2019 AND 2018

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Sercomm Corporation

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audits matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year 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, we do not provide a separate opinion on these matters.

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

Timing of revenue recognition from hub sales

Description

For the accounting policies of revenue recognition, please refer to Note 4(33); and for the details of revenue, please refer to Note 6(22).

The Group is mainly engaged in sales of global network communication software and equipment activities, and its sales types are mainly divided into shipped directly from factories and goods picked up from hubs. For pick-ups from hub, the Group recognises sales revenue when their customers pick up the goods (satisfies the performance obligation) from hubs. The Group recognises sales revenue based on movements of inventories contained in the statements or other information provided by the hub custodians. As the hubs are located around the world with numerous custodians, the frequency and contents of statements provided by custodians vary, and the process of revenue recognition involves numerous manual procedures, these factors may potentially result in inaccurate timing of sales revenue recognition and discrepancy between physical inventory quantities in the hubs and quantities as reflected in the accounting records. As the transaction amounts from hubs prior to and after the balance sheet date are significant to the financial statements, we consider the timing of revenue recognition from hub sales as a key audit matter.

How our audit addressed the matter

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

A. Assessed and tested the appropriateness of internal controls over hub sales revenue, including understanding and testing the statements between the Group and hub custodians periodically.

B. Obtained the stock details of each hub at the balance sheet date and agreed to respective supporting documents provided by hub custodians.

C. Confirmed inventory quantities held at hubs and agreed to accounting records to validate the revenue recognition in proper period.

Valuation of inventory

Description

For the accounting policies of inventory, please refer to Note 4(13); and for the accounting estimates of valuation of inventory and assumption uncertainty, please refer to Note 5. Loss on inventory valuation please refer to Note 6(7). As of December 31, 2019, the cost of inventory and loss on inventory valuation are $6,178,715 thousand and $281,492 thousand, respectively.

Due to rapid technological innovations and intense competition in the telecom market, there is a higher risk of inventory losses due to market value decline or obsolescence. The Group recognises inventories at the lower of cost and net realisable value, and the net realisable value is estimated based on historical experience, such as inventories aged over a certain period of time or individually identified as obsolete.

Since the industry which the Group is engaged in changes quickly, and the estimate of net realizable value for obsolete inventory is subject to management's judgment, we consider valuation of inventory as a key audit matter.

How our audit addressed the matter

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

A. Assessed the reasonableness of accounting policies and procedures in relation to inventory valuation, including the classification of aged, damaged and obsolete inventory.

B. Reviewed the Group's annual counting plan and conducted their physical counts on inventories to evaluate the control effectiveness on inventory classification.

C. Validated the inventory classification and the amount of net realisable value, recalculated the loss of inventory and further evaluated the rationality.

Other matter – Parent company only financial reports

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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.

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

As part of an audit in accordance with ROC GAAS, we exercise professional 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Yi-Chang Liang

Yu-Lung Wu

For and on behalf of PricewaterhouseCoopers, Taiwan

March 18, 2020

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

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 7,274,715	28	$ 5,357,910	23
1110	Financial assets at fair value through profit or loss - current	6(2)	12,413	-	434,889	2
1120	Financial assets measured at fair value through other comprehensive income - current	6(3)	176,587	1	250,259	1
1139	Financial assets for hedging - current	6(4)	83,186	-	41,644	-
1150	Notes receivable, net	6(5)	632,430	2	898,632	4
1170	Accounts receivable, net	6(5)	5,105,140	19	5,642,324	24
1200	Other receivables	6(6)	1,718,531	7	925,295	4
1220	Current income tax assets		11,761	-	33,925	-
130X	Inventories	6(7)	5,897,223	23	5,024,173	22
1410	Prepayments		336,001	1	184,252	1
1470	Other current assets	8	176,465	1	98,225	-
11XX	**Total Current Assets**		21,424,452	82	18,891,528	81
	Non-current assets					
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	29,261	-	41,797	-
1517	Financial assets measured at fair value through other comprehensive income - noncurrent	6(3)	116,238	1	58,870	-
1550	Investments accounted for using equity method	6(8)	5,865	-	9,251	-
1600	Property, plant and equipment, net	6(9)	2,995,622	12	3,250,139	14
1755	Right-of-use assets	6(10)	603,711	2	-	-
1780	Intangible assets, net	6(11)	341,323	1	359,339	2
1840	Deferred income tax assets	6(28)	364,207	1	397,339	2
1915	Prepayments for business facilities	6(30)	152,127	1	115,339	1
1920	Guarantee deposits paid	8	74,134	-	88,702	-
1980	Other non-current financial assets	9	70,140	-	69,438	-
1985	Long-term prepaid rents		-	-	85,051	-
1990	Other non-current assets, others		-	-	1,033	-
15XX	**Total non-current assets**		4,752,628	18	4,476,298	19
1XXX	**Total assets**		$ 26,177,080	100	$ 23,367,826	100

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current liabilities					
2100	Short-term borrowings	6(12)	$ 1,256,500	5	$ 2,692,520	12
2120	Financial liabilities at fair value through profit or loss - current	6(2)	1,742	-	560	-
2130	Contract liabilities	6(22)	72,144	-	214,498	1
2150	Notes payable		755,044	3	518,089	2
2170	Accounts payable		9,920,778	38	9,331,166	40
2200	Other payables		2,766,303	11	2,662,405	11
2230	Current income tax liabilities		331,421	1	198,070	1
2250	Provisions for liabilities - current	6(17)	188,048	1	100,615	-
2280	Current lease liabilities		74,448	-	-	-
2355	Current lease obligations payable	6(14)	-	-	13,922	-
2365	Current refund liabilities	6(22)	166,421	1	177,889	1
2399	Other current liabilities, others	9	123,340	-	150,776	1
21XX	**Total current Liabilities**		15,656,189	60	16,060,510	69
	Non-current liabilities					
2530	Bonds payable	6(13)	2,300,000	9	-	-
2570	Deferred income tax liabilities	6(28)	161,056	1	138,200	1
2580	Non-current lease liabilities		322,530	1	-	-
2610	Long-term notes and accounts payable	6(14)	-	-	99,537	-
2640	Net defined benefit liability, non-current	6(15)	56,188	-	56,864	-
2645	Guarantee deposits received		5,118	-	2,937	-
25XX	**Total non-current liabilities**		2,844,892	11	297,538	1
2XXX	**Total Liabilities**		18,501,081	71	16,358,048	70
	Equity					
	Equity attributable to owners of parent					
	Share capital					
3110	Ordinary share	6(18)	2,490,548	10	2,456,538	11
	Capital surplus	6(19)				
3200	Capital surplus		1,938,152	7	1,800,214	7
	Retained earnings	6(20)				
3310	Legal reserve		1,106,342	4	1,025,583	4
3320	Special reserve		381,414	1	412,964	2
3350	Undistributed retained earnings		2,266,877	9	1,892,728	8
	Other equity interest	6(21)				
3400	Other equity interest		(508,626)	(2)	(381,413)	(1)
	Treasury stocks					
3500	Treasury stocks	6(18)	-	-	(196,383)	(1)
31XX	**Total equity attributable to owners of the parent**		7,674,707	29	7,010,231	30
36XX	**Non-controlling interest**		1,292	-	(453)	-
3XXX	**Total equity**		7,675,999	29	7,009,778	30
	SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS	9				
	SUBSEQUENT EVENTS	11				
3X2X	**Total liabilities and equity**		$ 26,177,080	100	$ 23,367,826	100

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

	Items	Notes	Years ended December 31, 2019 Amount	%	2018 Amount	%
4000	**Operating revenue**	6(22)	$ 31,797,130	100	$ 33,384,941	100
5000	**Operating costs**	6(7)	(26,718,092)	(84)	(28,907,289)	(86)
5900	**Gross profit**		5,079,038	16	4,477,652	14
	Operating expenses					
6100	Selling expenses		(1,310,264)	(4)	(1,071,586)	(3)
6200	General and administrative expenses		(795,316)	(3)	(750,752)	(3)
6300	Research and development expenses		(1,996,009)	(6)	(1,751,190)	(5)
6450	(Reversal of) impairment loss	12(2)	9,453	-	(3,663)	-
6000	**Total operating expenses**		(4,092,136)	(13)	(3,577,191)	(11)
6900	**Operating profit**		986,902	3	900,461	3
	Non-operating income and expenses					
7010	Other income	6(23)	138,798	-	236,030	-
7020	Other gains and losses	6(24)	252,307	1	(33,846)	-
7050	Finance costs	6(25)	(97,024)	-	(72,361)	-
7060	Share of profit of associates and joint ventures accounted for using equity method	6(8)	(3,081)	-	136	-
7000	**Total non-operating income and expenses**		291,000	1	129,959	-
7900	**Profit before income tax**		1,277,902	4	1,030,420	3
7950	Income tax expense	6(28)	(243,335)	(1)	(182,115)	-
8200	**Profit for the year**		$ 1,034,567	3	$ 848,305	3

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

			Years ended December 31,			
			2019		2018	
	Items	Notes	Amount	%	Amount	%
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before rax, actuarial losses on defined benefit plans		($ 3,484)	-	($ 2,267)	-
8316	Recorded as unrealised gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(3)	57,369	-	(70,338)	-
8317	Gain on hedging instrument	6(21)	18,090	-	(29,936)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(28)	(717)	-	6,294	-
8310	**Total components of other comprehensive income that will not be reclassified to profit or loss**		71,258	-	(96,247)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		(214,622)	-	(128,571)	(1)
8368	Gain on hedging instruments	6(21)	41,760	-	290,668	1
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(28)	(8,351)	-	(32,585)	-
8360	**Total components of other comprehensive (loss) income that will be reclassified to profit or loss**		(181,213)	-	129,512	-
8500	**Total comprehensive income**		$ 924,612	3	$ 881,570	3
	Profit, attributable to					
8610	Owners of the parent		$ 1,032,953	3	$ 807,586	3
8620	Non-controlling interest		1,614	-	40,719	-
	Total		$ 1,034,567	3	$ 848,305	3
	Comprehensive income attributable to					
8710	Owners of the parent		$ 923,032	3	$ 840,922	3
8720	Non-controlling interest		1,580	-	40,648	-
	Total		$ 924,612	3	$ 881,570	3
	Earnings per share	6(29)				
9750	**Basic earnings per share**		$ 4.21		$ 3.32	
9850	**Diluted earnings per share**		$ 4.11		$ 3.25	

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent											
				Retained earnings			Other equity						
	Notes	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on financial assets at fair value through other comprehensive income	Gain or loss on hedging instrument	Treasury shares	Total	Non-controlling interest	Total equity
Year 2018													
Balance at January 1, 2018		$ 2,456,538	$ 1,764,717	$ 894,396	$ 131,680	$ 2,419,729	($ 210,063)	$ 13,486	($ 219,087)	$ -	$ 7,251,396	($ 25,098)	$ 7,226,298
Profit for the year		-	-	-	-	807,586	-	-	-	-	807,586	40,719	848,305
Other comprehensive income (loss) for the year	6(21)	-	-	-	-	(915)	(151,833)	(66,319)	252,403	-	33,336	(71)	33,265
Total comprehensive income(loss)		-	-	-	-	806,671	(151,833)	(66,319)	252,403	-	840,922	40,648	881,570
Appropriation and distribution of retained earnings:													
Legal reserve	6(20)	-	-	131,187	-	(131,187)	-	-	-	-	-	-	-
Special reserve	6(20)	-	-	-	281,284	(281,284)	-	-	-	-	-	-	-
Cash dividends	6(20)	-	-	-	-	(921,201)	-	-	-	-	(921,201)	-	(921,201)
Compensation cost of employee stock options	6(16)	-	35,497	-	-	-	-	-	-	-	35,497	-	35,497
Purchase of treasury shares		-	-	-	-	-	-	-	-	(496,187)	(496,187)	-	(496,187)
Treasury shares transferred to employees		-	-	-	-	-	-	-	-	299,804	299,804	-	299,804
Change in non-controlling interests		-	-	-	-	-	-	-	-	-	-	(16,003)	(16,003)
Balance at December 31, 2018		$ 2,456,538	$ 1,800,214	$ 1,025,583	$ 412,964	$ 1,892,728	($ 361,896)	($ 52,833)	$ 33,316	($ 196,383)	$ 7,010,231	($ 453)	$ 7,009,778
Year 2019													
Balance at January 1, 2019		$ 2,456,538	$ 1,800,214	$ 1,025,583	$ 412,964	$ 1,892,728	($ 361,896)	($ 52,833)	$ 33,316	($ 196,383)	$ 7,010,231	($ 453)	$ 7,009,778
Profit for the year		-	-	-	-	1,032,953	-	-	-	-	1,032,953	1,614	1,034,567
Other comprehensive income (loss) for the year	6(21)	-	-	-	-	(2,786)	(214,588)	59,573	47,880	-	(109,921)	(34)	(109,955)
Total comprehensive income (loss)		-	-	-	-	1,030,167	(214,588)	59,573	47,880	-	923,032	1,580	924,612
Appropriation and distribution of retained earnings:													
Legal reserve	6(20)	-	-	80,759	-	(80,759)	-	-	-	-	-	-	-
Special reserve	6(20)	-	-	-	(31,550)	31,550	-	-	-	-	-	-	-
Cash dividends	6(20)	-	-	-	-	(612,239)	-	-	-	-	(612,239)	-	(612,239)
Compensation cost of employee stock options	6(16)	-	2,919	-	-	-	-	-	-	-	2,919	-	2,919
Treasury shares transferred to employees	6(18)	-	-	-	-	-	-	-	-	196,383	196,383	-	196,383
Exercise of employee share options	6(16)(19)	34,010	135,019	-	-	-	-	-	-	-	169,029	-	169,029
Removal of hedging reserve	6(4)	-	-	-	-	-	-	-	(10,780)	-	(10,780)	-	(10,780)
Reclassification of ineffective hedging reserve	6(4)	-	-	-	-	-	-	-	(3,868)	-	(3,868)	-	(3,868)
Proceeds from disposal of investments in equity instruments measured at fair value through other comprehensive income	6(3)	-	-	-	-	5,430	-	(5,430)	-	-	-	-	-
Change in non-controlling interests		-	-	-	-	-	-	-	-	-	-	165	165
Balance at December 31, 2019		$ 2,490,548	$ 1,938,152	$ 1,106,342	$ 381,414	$ 2,266,877	($ 576,484)	$ 1,310	$ 66,548	$ -	$ 7,674,707	$ 1,292	$ 7,675,999

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 1,277,902	$ 1,030,420
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(26)	559,342	491,533
Amortisation expense	6(26)	94,110	93,055
Expected credit (gain) loss	12(2)	(9,453)	3,663
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	6(24)	(219,765)	53,223
Interest expense	6(25)	97,024	72,361
Interest income	6(23)	(95,523)	(65,087)
Dividend income	6(23)	(33,198)	(32,564)
Gain on disposal of other liabilities	6(23)	-	(99,898)
Gain on write-off of past due payable	6(23)	-	(4,112)
Compensation cost of employee stock options	6(16)	2,919	35,497
Share of profit of associates accounted for using equity method	6(8)	3,081	(136)
Loss (gain) on disposal of property, plant and equipment	6(24)	5,651	(496)
Loss (gain) on disposal of intangible assets	6(24)	53	(100,424)
Gain on early termination of lease		(5)	-
Impairment loss – investments accounted for using equity method	6(8)(24)	-	20,707
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		326,909	559,342
Accounts receivable		546,722	641,690
Other receivables		(790,459)	(591,325)
Inventories		(873,050)	1,037,656
Prepayments		(152,455)	67,014
Other current assets		(80,765)	23,791
Other financial assets-non-current		(702)	99,000
Changes in operating liabilities			
Financial assets and liabilities at fair value through profit or loss - current		24,877	36,971
Contract liabilities		(142,354)	147,086
Notes payable		176,248	65,411
Accounts payable		589,612	(2,228,842)
Other payables		138,903	(381,354)
Provisions for liabilities		87,721	91,081
Refund liabilities-current		(11,468)	74,499
Other current liabilities		(27,436)	9,566
Net defined benefit liabilities - non-current		(4,160)	(3,213)
Cash inflow generated from operations		1,490,281	1,146,115
Interest received		90,988	68,996
Interest paid		(77,223)	(70,637)
Payments of income tax		(39,438)	(325,965)
Net cash flows from operating activities		1,464,608	818,509

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through profit or loss		$ -	($ 545,799)
Proceeds from disposal of financial assets at fair value through profit or loss		623,788	24,082
Acquisition of financial asset at fair value through other comprehensive income		(61,000)	(298,076)
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)	134,672	2,360
Acquisition of investments accounted for using equity method	6(8)	-	(30,144)
Acquisition of property, plant and equipment	6(30)	(559,579)	(566,823)
Proceeds from disposal of property, plant and equipment		5,059	2,029
Decrease (increase) in guarantee deposit paid		15,601	(40,168)
Acquisition of intangible assets	6(30)	(105,161)	(173,467)
Proceeds from disposal of intangible assets		-	69,887
Dividends received	6(23)	33,198	32,564
Net cash flows from (used in) investing activities		86,578	(1,523,555)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term debts		4,010,579	5,357,781
Settlement of short-term debts		(5,446,599)	(4,541,622)
Proceeds from issuance of corporate bonds	6(13)	2,300,000	-
Increase (decrease) in guarantee deposits received	6(31)	2,364	(1,317)
Decrease in lease payables	6(31)	-	(14,419)
Exercise of employee share options	6(16)	169,029	-
Payments to acquire treasury shares		-	(496,187)
Proceeds from treasury shares transferred to employees		196,383	299,804
Decrease in lease liabilities	6(31)	(93,613)	-
Cash dividends paid	6(20)	(612,239)	(921,201)
Change in non-controlling interests		165	(16,074)
Net cash flows from (used in) financing activities		526,069	(333,235)
Effect of exchange rate changes		(160,450)	(87,972)
Net increase (decrease) in cash and cash equivalents		1,916,805	(1,126,253)
Cash and cash equivalents at beginning of year		5,357,910	6,484,163
Cash and cash equivalents at end of year		$ 7,274,715	$ 5,357,910

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

SERCOMM CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DDECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Sercomm Corporation (the "Company") was incorporated on July 29, 1992. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in research and development, manufacturing and sales of networking communication software and equipment.

The common stocks of the Company were traded on the Taipei Exchange since May 1999 and listed on the Taiwan Stock Exchange since December 2007.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 18, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

A. Amendments to IFRS 9, 'Prepayment features with negative compensation'.

The amendments introduce changes to certain extent in determining whether the prepayable financial assets fall under contractual cash flows that are solely payments of principal and interest (SPPI). The SPPI condition is satisfied when the prepayment includes reasonable compensation (even if it is negative compensation) for contract termination prior to the expiration date. The amendments further clarify that when a financial liability is modified without this resulting in derecognition, the difference arising between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate is recognised in profit or loss.

B. IFRS 16, 'Leases'

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

(b) The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

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

ii. The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

iii. The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of $33,713 was recognised for the year ended December 31, 2019.

iv. The exclusion of initial direct costs for the measurement of 'right-of-use asset'.

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

(c) The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.53% to 4.31%.

(d) The Group recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The amount of aforementioned present values is the same as the amount of lease liabilities recognised on January 1, 2019.

C. Amendments to IAS 19, 'Plan amendment, curtailment or settlement'

When a change to a plan take place, the amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

D. Amendments to IAS 28, 'Long-term interests in associates and joint ventures'.

The amendment clarifies that, for any long-term interest that, in substance, form part of the entity's net investment in an associate or joint venture, an entity should apply IFRS 9 to such interests before it applies IAS 28 to recognise losses.

E. IFRIC 23, 'Uncertainty over income tax treatments'

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 , 'Income taxes' based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

F. Annual improvements to IFRSs 2015-2017 cycle

(a) Amendments to IFRS 3, 'Business combinations'

The amendments clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at of the acquisition date.

(b) Amendments to IFRS 11, 'Joint arrangements'

The amendments clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

(c) Amendments to IAS 12, 'Income taxes'

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.

(d) Amendments to IAS 23, 'Borrowing costs'

The amendments clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

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

The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. The significant effects of applying the new standard as of January 1, 2019 are summarised below:

Consolidated balance sheet Affected items	2018 version IFRSs amount	Effect of adoption of new standards	2019 version IFRSs amount
January 1, 2019			
Assets			
Right-of-use assets	$ -	$ 618,428	$ 618,428
Long-term prepaid rents	85,051	(85,051)	-
Property, plant and equipment	226,466	(226,466)	-
Liabilities			
Lease liabilities	$ -	$ 420,370	$ 420,370
Current lease obligations payable	13,922	(13,922)	-
Long-term notes and accounts payable	99,537	(99,537)	-

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

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

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

A. Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'

The amendments clarify the definition of material that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

B. Amendments to IFRS 3, 'Definition of a business'

The amendments clarify the definition of a business that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. Besides, add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

C. Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform'

The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. Also, the amendment requires disclosure about how the entity is impacted by IBOR reform and is managing the transition process.

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

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

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

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

New and revised Standards, Interpretations and Amendments	Effective date issued by International Accounting Standards Board
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

A. Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its associates or joint ventures is recognised either in full or partially depending on the nature of the assets sold or contributed:

(a) If sales or contributions of assets constitute a 'business', the full gain or loss is recognised;

(b) If sales or contributions of assets do not constitute a 'business', the partial gain or loss is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

B. IFRS 17, 'Insurance contracts'

IFRS 17 'Insurance contracts' replaces IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard applies to insurance contracts (including reinsurance contracts) issued, to reinsurance contracts held and to investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations shall be separated from the insurance contracts. An entity shall, at initial recognition, disaggregate a portfolio into three groups of contracts: onerous, no significant risk of becoming onerous, and remaining contracts. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity may apply a modified simplified measurement approach (the premium allocation approach) to some insurance contracts. An entity recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately. Entities are required to present separately insurance revenue, insurance service expenses and insurance finance income or expenses and to disclose information about amounts, judgements and risks arising from insurance contracts.

C. Amendments to IAS 1, 'Classification of liabilities as current or non-current'

The amendments clarify that classification of liabilities depends on the rights that exist at the end of the reporting period. An entity shall classify a liability as current when it does not have a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. Also, the amendments define 'settlement' as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

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

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

(c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

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

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

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

B. Subsidiaries included in the consolidated financial statements:

Name of Investment Company	Name of subsidiary	Main business activities	Ownership (%) December 31, 2019	Ownership (%) December 31, 2018	Remark
The Company	Sercomm USA Inc.	Local market consultation and customer services of computer information products	100	100	
〃	Sercomm Trading Co. Ltd.	Overseas indirect investment	100	100	
〃	Shukuan Investment Ltd.	General investment	100	100	
〃	Sercomm France SARL	Local market consultation and customer services of computer information products	100	100	
〃	Sercomm Deutschland GmbH	Local market consultation and customer services of computer information products	100	100	
〃	Sercomm Japan Corp.	Sales of computer information products and quotation, tender, general import and export business related the products.	100	100	
〃	Sercomm Russia Limited Liability Company	Sales of computer information products and quotation, tender, general import and export business related the products.	100	100	
〃	Sercomm Technology Inc.	Sales of computer information products and quotation, tender, general import and export business related the products.	100	100	Note 1
〃	Sercomm Britain Limited	Local market consultation and customer services of computer information products	100	-	Note 2
〃	Sernet Technology Mexico	Local market consultation and customer services of computer information products	100	-	Note 2
〃	Servercom (India) Private Limited	Manufacturing and sales of servers, routers, OS and related software	100	-	Note 2
Sercomm Trading	Zealous Investments Ltd.	Overseas indirect investment	100	100	
〃	Smart Trade Inc.	Overseas indirect investment	100	100	
Sercomm France SARL	Sercomm Italia SRL	Local market consultation and customer services of computer information products	100	100	
Zealous Investments Ltd.	Sernet (Suzhou) Technologies Corporation	R&D and manufacturing of servers, routers, OS and related software	100	100	

Name of Investment Company	Name of subsidiary	Main business activities	Ownership (%) December 31, 2019	Ownership (%) December 31, 2018	Remark
Zealous Investments Ltd.	HawXeye, LLC.	R&D and application of advanced analysis techniques in monitoring images	55.09	55.09	
〃	Sercomm Philippines Inc.	Manufacturing of servers, routers, OS and related software	100	-	Note 2
〃	Refinement Property Holding Inc.	Lease of real estate	40	-	Notes 2 and 3
Smart Trade Inc.	DWnet Technology (Suzhou) Co., Ltd.	Manufacturing and sales of servers, routers, OS and related software	100	100	
Sernet (Suzhou) Technologies Corporation	Suzhou Hua-Yi Communications Co., Ltd.	Sales of servers, routers, OS and related software	100	100	
〃	Suzhou Femtel Communications Co., Ltd.	Sales of communication products and related software	100	100	
Suzhou Femtel Communications Co., Ltd	Nanjing Femtel Communications Co., Ltd.	R&D and sales of communication products and related software	100	100	

Note 1: The Company was set up in September 2018.

Note 2 Sercomm Philippines Inc., Sercomm Britain Limited, Sernet Technology Mexico, Refinement Property Holding Inc. and Servercom (India) Private Limited were set up in 2019.

Note 3: The Company was controlled by the Group so it was included in the consolidated financial statements.

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

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

E. Significant restrictions: None.

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

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured by using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

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

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

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

(d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income.

B. Translation of foreign operations

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

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

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

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

(5) Classification of current and non-current items

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

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

(b) Assets held mainly for trading purposes;

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

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

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

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

(b) Liabilities arising mainly from trading activities;

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

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

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with maturity within 12 months).

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

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

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

C. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

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

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

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

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

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

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

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

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

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

(9) Accounts and notes receivable

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

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

C. The Group's operating pattern of accounts receivable that are expected to be factored is for the purpose of selling, and the accounts receivable are subsequently measured at fair value, with any changes in fair value recognised in profit or loss.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost including accounts receivable or contract assets that have a significant financing component, lease receivables, loan commitments and financial guarantee contracts, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

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

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

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

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

(12) Leasing arrangements (lessor)-operating leases

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(13) Inventories

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

(14) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly

20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

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

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

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

(15) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost.

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

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

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

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	36 ~ 56 years
Machinery and equipment	4 ~ 10 years
Research equipment	3 ~ 6 years

Office and other equipment	2 ~ 6 years
Leasehold assets	36 ~ 51 years
Leasehold improvements	10 years

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

Effective since 2019

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

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the interest rate implicit in the lease.

Lease payments are comprised of the following:

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

(b) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option.

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

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

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

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

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

(17) Leased assets/ operating leases (lessee)

Prior to 2019

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

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

(18) Intangible assets

A. Computer software and certification cost

Computer software and certification cost are stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 5 years.

B. Internally generated intangible assets-research and development expenditures

(a) Research expenditures are recognised as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;

ii. An entity intends to complete the intangible asset and use or sell it;

iii. An entity has the ability to use or sell the intangible asset;

iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;

v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

(c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 5 years.

C. Goodwill

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

D. Trademark right

Trademark right is stated at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

(19) Impairment of non-financial assets

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

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

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(20) Borrowings

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

B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(21) Notes and accounts payable

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

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

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

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

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

C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(23) Bonds payable

Ordinary corporate bonds issued by the Group are initially recognised at fair value less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is presented as an addition to or deduction from bonds payable, which is amortised to profit or loss over the period of bond circulation using the effective interest method as an adjustment to ‘finance costs’.

(24) Derecognition of financial liabilities

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

(25) Non-hedging and embedded derivatives

A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognised as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.

C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(26) Hedge accounting

A. At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.

B. The Group designates the hedging relationship as follows:

(a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.

(b) Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

C. Fair value hedges

(a) The gain or loss on the hedging instrument is recognised in profit or loss. Whereas the gain or loss is recognised in other comprehensive income if the hedging instrument hedges an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income.

(b) The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and is recognised in profit or loss. However, if the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the hedged item is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

D. Cash flow hedges

(a) The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):

i. the cumulative gain or loss on the hedging instrument from inception of the hedge; and

ii. the cumulative change in fair value of the hedged item from inception of the hedge.

(b) The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognised in profit or loss.

(c) The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) is accounted for as follows:

i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.

ii. For cash flow hedges other than those covered by item i. above, that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

iii. If that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

(d) When the hedging instrument expires, or is sold, terminated, exercised or when the hedging relationship ceases to meet the qualifying criteria, if the forecast transaction is still expected to occur, the amount that has been accumulated in the cash flow hedge reserve shall remain in the cash flow hedge reserve until the forecast transaction occurs; if the forecast transaction is no longer expected to occur, the amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

(27) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(28) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognised immediately in profit or loss.

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

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(29) Employee share-based payment

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

B. Restricted stocks:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.

(b) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – restricted employee right.'

(30) Income tax

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

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

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

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

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(31) Share capital

A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

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

(32) Dividends

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

(33) Revenue recognition

A. Revenue is recognised when control of the products has transferred, and the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

The Group uses five steps to determine the revenue recognition:

Step 1: Identify the contract.

Step 2: Identify the obligation in contract.

Step 3: Determine transaction price.

Step 4: Distribute transaction price to each obligation in contract.

Step 5: Recognize revenue when those obligations are satisfied.

B. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected payable to customers in relation to sales made until the end of the reporting period.

C. The Group's obligation to provide a repair for faulty products under the standard warranty terms is recognised as a provision.

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

(34) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation. For the explanation of evaluation of inventories, please refer to Note 6.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and revolving funds	$ 2,330	$ 2,238
Checking accounts and demand deposits	3,871,856	2,180,581
Time deposits	3,400,529	3,174,037
Cash equivalents	-	1,054
	$ 7,274,715	$ 5,357,910

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

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

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

Assets	December 31, 2019	December 31, 2018
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	$ 23	$ 517,751
Forward foreign exchange contract	12,385	4,220
Cross currency swap	-	1,841
Valuation adjustment	5	(88,923)
	$ 12,413	$ 434,889
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Convertible corporate bonds	$ 4,169	$ 27,834
Unlisted stocks	33,088	33,088
Valuation adjustment	(7,996)	(19,125)
	$ 29,261	$ 41,797

Liabilities	December 31, 2019	December 31, 2018
Current items		
Financial liabilities held for trading		
Cross currency swap	$ 1,742	$ 560

A. Amounts recognised in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are listed below:

	Years ended December 31, 2019	Years ended December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	$ 190,219)	($ 88,923)
Debt instruments	(999)	(19,378)
Forward foreign exchange contract	7,147	(8,516)
Financial liabilities held for trading		
Cross currency swap	19,530	63,594
	$ 215,897	($ 53,223)

B. The Group entered into forward foreign exchange contracts and cross currency swap contracts to sell and buy various currency to hedge exchange rate risk of export proceeds and interest rate risk. However, these forward foreign exchange contracts are not accounted for under hedge accounting. The summary of contracts not past due and entered into by the Group are as follows:

	December 31, 2019		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Buy USD/Sell RUB	2019/12~2020/01	USD 4,000 thousand
Forward foreign exchange contracts	Buy USD/Sell RMB	2019/12~2020/07	USD 50,000 thousand
Cross currency swap	Buy USD/Sell NTD	2019/11~2020/02	USD 5,000 thousand

	December 31, 2018		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Buy USD/Sell RUB	2018/11~2019/01	USD 2,670 thousand
Cross currency swap	Buy USD/Sell NTD	2018/10~2019/02	USD 40,000 thousand

C. The Group's financial assets at fair value through profit or loss were not pledged to others as collateral.

D. Information relating to fair value of financial assets at fair value through profit or loss is provided in Note 12(3).

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

	December 31, 2019	December 31, 2018
Current items:		
Designation of equity instruments		
Listed stocks	$ 166,484	$ 295,716
Valuation adjustment	10,103	(45,457)
	$ 176,587	$ 250,259
Non-current items:		
Designation of equity instruments		
Unlisted stocks	$ 131,808	$ 70,819
Valuation adjustment	(15,570)	(11,949)
	$ 116,238	$ 58,870

A. The Group has elected to classify investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $292,825 and $309,129 as at December 31, 2019 and 2018, respectively.

B. Considering the financial planning and market risk, the Group disposed equity instruments in 2019. The fair value of sold stocks amounted to $134,672 and gain on disposal amounting to $5,430 was recognized.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the equity instruments at fair value through other comprehensive income are listed below:

	Years ended December 31, 2019	Years ended December 31, 2018
Fair value change recognized in other comprehensive income	$ 57,369	($ 70,338)
Accumulated gain or loss arising from derecognition or reclassification of retained earnings	($ 5,430)	$ -
Dividend income recognised in profit or loss		
Held at end of period	$ 8,128	$ 15,288
Derecognised during the period	6,900	-
	$ 15,028	$ 15,288

D. The Group's financial assets at fair value through profit or loss were not pledged to others as collateral.

E. Information relating to fair value of financial assets at fair value through other comprehensive income is provided in Note 12(3).

(4) Hedging financial assets and liabilities

	December 31, 2019	
	Assets	Liabilities
Cash flow hedges:		
Exchange rate risk		
Forward foreign exchange contract	$ 83,186	$ -

	December 31, 2018	
	Assets	Liabilities
Cash flow hedges:		
Exchange rate risk		
Forward foreign exchange contract	$ 41,644	$ -

A. Hedge accounting is applied to remove the accounting inconsistency between the hedging instrument and the hedged item. As the Group's EUR denominated accounts receivable and USD denominated accounts payable are exposed to the impact of variable exchange rate, the Group uses forward foreign exchange contract of exposed risk with 1:1 hedge ratio to control the exchange rate risk under their acceptable range based on the Group's risk management policies.

B. Transaction information associated with the Group adopting hedge accounting is as follows:

December 31, 2019

Hedged items	Derivative instruments designated as hedges	Fair value of instruments designated as hedges	Period of anticipated cash flow	Prior of gain (loss) expected to be recognized in statements of comprehensive income
Expected transaction	Forward foreign exchange contracts	$ 83,186	2020/01~2020/06	2020/01~2020/06

December 31, 2018

Hedged items	Derivative instruments designated as hedges	Fair value of instruments designated as hedges	Period of anticipated cash flow	Prior of gain (loss) expected to be recognized in statements of comprehensive income
Expected transaction	Forward foreign exchange contracts	$ 41,644	2019/01~2019/06	2019/01~2019/06

C. Information of contract not past due are as follows:

	December 31, 2019		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Sell EUR / Buy NTD	2019/08~2020/06	EUR 42,000 thousand

	December 31, 2018		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Sell EUR / Buy USD	2018/09~2019/06	EUR 30,000 thousand

D. Cash flow hedge:

	2019	2018
Other equity – cash flow hedge reserve		
At January 1	$ 33,316	($ 219,087)
Losses on hedge effectiveness - amount recognised in other comprehensive income	123,671	181,498
Reclassified to profit or loss as the hedged item has affected profit or loss	(75,791)	99,918
The sold hedged item adjusted to inventories during the period	(10,780)	(29,013)
Reclassified to profit or loss – forecast transaction is no longer expected to occur	(3,868)	-
At December 31	$ 66,548	$ 33,316

To hedge exposed exchange rate risk arising from forecast sales revenue or/and forecast purchase of inventory, the Group entered into a forward forecast sale agreement of EUR or/and a forward forecast purchase agreement of USD, and the hedge ratio is 1:1. The effective portion with respect to the changes in the fair value of the hedging instruments is deferred to recognise in the cash flow hedge reserve, which is under other comprehensive income, and will be directly included in the sales revenue when the hedged items are subsequently recognised in accounts receivable; and will be directly included in the inventory when the hedge items are subsequently recognised in inventory.

E. Information relating to credit risk of hedging financial assets and liabilities is provided in Note 12(3).

(5) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	$ 632,430	$ 898,632
Accounts receivable	$ 5,108,264	$ 5,654,986
Less: Allowance for loss	(3,124)	(12,662)
	$ 5,105,140	$ 5,642,324

A. None of the Group's notes receivable are overdue. For the ageing analysis of the accounts receivable, please refer to Note 12(2).

The Group grants credit term to their clients from 30 days to 210 days after the delivery date. Ageing analysis is conducted on the basis of the number of days overdue. Please refer to Note 12 for disclosures of credit risk and information on movement of impairment and analysis of accounts receivable.

B. As of December 31, 2019 and 2018, the balances of receivables (including notes receivable) were all from contracts with customers. And as of January 1, 2018, the total balance of receivables from contracts with customers amounted to $7,209,537 and loss allowance amounted to $9,219.

C. As of December 31, 2019 and 2018, notes receivable were endorsed and transferred to suppliers as payment, which had not reached maturity and were not derecognised, amounting to $60,707 and $100,540 (RMB 14,047 thousand and RMB 22,461 thousand, the approximate fair value), respectively. If the issuer or acceptor of a note refuses to pay at maturity, the Group has the obligation to pay as the endorser.

D. As of December 31, 2019 and 2018, the amount of endorsed notes pledged as collateral for the purpose of issuing banker's acceptances was $0 and $452,678, respectively.

(6) Transfer of financial assets

A. The Group entered into a factoring agreement with financial institutions to sell its accounts receivable. Under the agreement, the Group prepared an offering document of purchase. The offering document states that the factoring is without the right of recourse, and the Group is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute. The Group does not have any continuing involvement in the transferred accounts receivable, thus, the Group meets the condition of financial asset derecognition. The derecognised accounts receivable are summarised as follows:

December 31, 2019

Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Facilities	Amount advanced	Amount available for advance	Interest rate range of amount advanced
DBS Bank (Taiwan) Ltd.	$ 1,715,897 (USD56,995,000)	$ 1,715,897	USD64,688,000	$ 310,017 (USD 10,298,000)	$ 1,405,880	2.42%~2.58%
Taishin International Bank	11,164 (USD 371,000)	11,164	USD 1,000,000	-	11,164	-
Taipei Fubon Bank	503,366 (USD16,720,000)	503,366	USD 40,500,000	451,590 (USD 15,000,000)	51,776	2.98%~3.38%
	$ 2,230,427	$ 2,230,427		$ 761,607	$ 1,468,820	

December 31, 2018

Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Facilities	Amount advanced	Amount available for advance	Interest rate range of amount advanced
DBS Bank (Taiwan) Ltd.	$ 2,198,962 (USD71,550,000)	$ 2,198,962	USD 72,000,000	$ 1,426,853 (USD 46,427,000)	$ 772,109	2.17%~3.86%
Taishin International Bank	6,219 (USD 202,000)	6,219	USD 1,000,000	-	6,219	-
	$ 2,205,181	$ 2,205,181		$ 1,426,853	$ 778,328	

B. As of December 31, 2019 and 2018, the price that arose from factoring of accounts receivable but not yet received from banks in advance amounted to $1,468,820 and $778,328, respectively, which were reclassified as other receivables.

C. Certain notes receivable that were endorsed and transferred to other parties meet the requirements of derecognition as financial assets. The Group retains the obligation to pay as endorser only when the issuer or acceptor of a note refuses to pay at maturity; however, the credit rating of issuers or acceptors of the aforementioned notes is very high. Notes receivable endorsed and transferred to other parties which were derecognised before maturity are summarised as follows:

	December 31, 2019	December 31, 2018
Amount derecognized	$ -	$ 130,612 (RMB 29,179,000)

(7) Inventories

	December 31, 2019	December 31, 2018
Raw materials	$ 2,589,618	$ 1,906,188
Work in progress	661,354	530,977
Finished goods	2,549,417	2,581,878
Inventory in transit	96,834	5,130
	$ 5,897,223	$ 5,024,173

The cost of inventories recognised as expense for the period:

	Years ended December 31,	
	2019	2018
Cost of goods sold	$ 26,480,265	$ 28,774,192
Loss on decline in market value	237,827	133,097
	$ 26,718,092	$ 28,907,289

(8) Investments accounted for using equity method

	2019	2018
At January 1	$ 9,251	$ -
Addition of investments accounted for using equity method	-	30,144
Share of profit or loss of investments accounted for using equity method	(3,081)	136
Impairment loss-investments accounted for using equity method	-	(20,707)
Effect of exchange rate changes	(305)	(322)
At December 31	$ 5,865	$ 9,251

A. The Group acquired 30% of the shares of the associated company, MECSware GmbH, in March 2018, whose principal place of business is in Germany, its net (loss) gain of year 2019 and 2018 were ($10,270) and $454, respectively.

B. In 2018, the Group recognised an impairment loss of $20,707 due to the decrease in the recoverable value of the investment.

(9) Property, plant and equipment

2019	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets and leasehold improvements	Unfinished construction	Total
January 1								
Cost	$433,008	$ 1,359,105	$ 2,400,234	$ 829,054	$ 638,121	$ 387,162	$ 763	$ 6,047,447
Accumulated depreciation	-	(259,225)	(1,591,349)	(527,263)	(349,303)	(70,168)	-	(2,797,308)
	$433,008	$ 1,099,880	$ 808,885	$ 301,791	$ 288,818	$ 316,994	$ 763	$ 3,250,139
At January 1	$433,008	$ 1,099,880	$ 808,885	$ 301,791	$ 288,818	$ 316,994	$ 763	$ 3,250,139
Additions	-	40,381	118,346	115,215	108,540	32,021	26,723	441,226
Disposals	-	-	(9,448)	-	(1,262)	-	-	(10,710)
Reclassifications	-	-	34,265	24,420	41,048	(226,466)	(26,386)	(153,119)
Depreciation charge	-	(32,424)	(247,404)	(101,311)	(93,644)	(12,851)	-	(487,634)
Net exchange differences	-	(19,665)	(15,500)	(5,872)	(534)	(2,682)	(27)	(44,280)
At December 31	$433,008	$ 1,088,172	$ 689,144	$ 334,243	$ 342,966	$ 107,016	$ 1,073	$ 2,995,622
December 31								
Cost	$433,008	$ 1,372,822	$ 2,296,973	$ 946,824	$ 771,072	$ 125,932	$ 1,073	$ 5,947,764
Accumulated depreciation	-	(284,710)	(1,607,829)	(612,581)	(428,106)	(18,916)	-	(2,952,142)
	$433,008	$ 1,088,172	$ 689,144	$ 334,243	$ 342,966	$ 107,016	$ 1,073	$ 2,995,622

2018	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets and leasehold improvements	Unfinished construction	Total
January 1								
Cost	$ 433,008	$ 1,377,577	$ 2,303,777	$ 722,969	$ 513,892	$ 290,341	$ 23,868	$ 5,665,432
Accumulated depreciation	-	(230,680)	(1,390,904)	(451,488)	(283,960)	(59,720)	-	(2,416,752)
	$ 433,008	$ 1,146,897	$ 912,873	$ 271,481	$ 229,932	$ 230,621	$ 23,868	$ 3,248,680
At January 1	$ 433,008	$ 1,146,897	$ 912,873	$ 271,481	$ 229,932	$ 230,621	$ 23,868	$ 3,248,680
Additions	-	-	192,106	121,813	130,067	74,724	-	518,710
Disposals	-	-	(1,192)	-	(341)	-	-	(1,533)
Reclassifications	-	-	-	-	7,371	22,546	(22,546)	7,371
Depreciation charge	-	(32,783)	(280,329)	(89,745)	(77,654)	(11,022)	-	(491,533)
Net exchange differences	-	(14,234)	(14,573)	(1,758)	(557)	125	(559)	(31,556)
At December 31	$ 433,008	$ 1,099,880	$ 808,885	$ 301,791	$ 288,818	$ 316,994	$ 763	$ 3,250,139
December 31								
Cost	$ 433,008	$ 1,359,105	$ 2,400,234	$ 829,054	$ 638,121	$ 387,162	$ 763	$ 6,047,447
Accumulated depreciation	-	(259,225)	(1,591,349)	(527,263)	(349,303)	(70,168)	-	(2,797,308)
	$ 433,008	$ 1,099,880	$ 808,885	$ 301,791	$ 288,818	$ 316,994	$ 763	$ 3,250,139

A. The Group leased some offices in Nankang Software Park through a capital lease, which were reclassified from leased assets to right-of-use assets on January 1, 2019. Please refer to Notes 6(10) and 6(14) for details.

B. The Group has no property, plant and equipment that were pledged to others as collateral.

(10) Leasing arrangements - lessee

Effective since 2019

A. The Group leases various assets including land use right, buildings and equipment. Rental contracts are typically made for periods of 1 to 51 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing, transfer, sublease and share purposes.

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

	December 31, 2019	Year ended December 31, 2019
	Carrying amount	Depreciation charge
Land	$ 94,163	$ -
Land use right	82,115	2,780
Buildings	427,433	68,928
	$ 603,711	$ 71,708

C. For the year ended December 31, 2019, the additions to right-of-use assets amounted to $65,382.

D. The information on income and expense accounts relating to lease contracts is as follows:

	Year ended December 31, 2019
Items affecting profit or loss	
Interest expense on lease liabilities	$ 11,657
Expense on short-term lease contracts	40,909
Expense on leases of low-value assets	514

E. For the year ended December 31, 2019, the Group's total cash outflow for leases amounted to $135,036.

(11) Intangible assets

	Computer software	Development expenditure	Goodwill	Patents	Total
January 1, 2019					
Cost	$ 520,946	$ 246,009	$ 47,911	$ 13,398	$ 828,264
Accumulated amortisation	(290,685)	(175,056)	-	(3,184)	(468,925)
	$ 230,261	$ 70,953	$ 47,911	$ 10,214	$ 359,339
At January 1, 2019	$ 230,261	$ 70,953	$ 47,911	$ 10,214	$ 359,339
Additions－acquired separately	57,354	-	-	5,241	62,595
Additions－from internal development	-	15,613	-	-	15,613
Disposal	-	-	-	(53)	(53)
Amortisation charge	(73,273)	(17,701)	-	(3,136)	(94,110)
Net exchange differences	(406)	-	(1,655)	-	(2,061)
At December 31, 2019	$ 213,936	$ 68,865	$ 42,256	$ 12,266	$ 341,323
December 31, 2019					
Cost	$ 523,921	$ 261,622	$ 46,256	$ 18,529	$ 850,328
Accumulated amortisation	(309,985)	(192,757)	-	(6,263)	(509,005)
	$ 213,936	$ 68,865	$ 42,256	$ 12,266	$ 341,323

	Computer software	Development expenditure	Goodwill	Patents	Total
January 1, 2018					
Cost	$ 390,290	$ 221,541	$ 49,059	$ 10,545	$ 671,435
Accumulated amortisation	(225,010)	(147,890)	-	(984)	(373,884)
	$ 165,280	$ 73,651	$ 49,059	$ 9,561	$ 297,551
At January 1, 2018	$ 165,280	$ 73,651	$ 49,059	$ 9,561	$ 297,551
Additions－acquired separately	129,164	-	-	3,495	132,659
Additions－from internal development	-	24,468	-	-	24,468
Disposal	(201)			(439)	(640)
Amortisation charge	(63,486)	(27,166)	-	(2,403)	(93,055)
Net exchange differences	(496)	-	(1,148)	-	(1,644)
At December 31, 2018	$ 230,261	$ 70,953	$ 47,911	$ 10,214	$ 359,339
December 31, 2018					
Cost	$ 520,946	$ 246,009	$ 47,911	$ 13,398	$ 828,264
Accumulated amortisation	(290,685)	(175,056)	-	(3,184)	(468,925)
	$ 230,261	$ 70,953	$ 47,911	$ 10,214	$ 359,339

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

	Years ended December 31, 2019	Years ended December 31, 2018
Operating costs	$ 19,405	$ 28,459
Operating expenses	74,705	64,596
	$ 94,110	$ 93,055

B. The Group has entered into an assets exchange contract with Presciense Limited on July 30, 2019, exchanging 600 thousand shares of Presciense Limited's convertible bonds on hand and its interest receivable for the application technology related to Internet of Things amounting to $7,978.

C. The Group has no intangible assets pledged to others as collateral.

(12)Short-term borrowings

Type of borrowings	December 31, 2019	December 31, 2018
Bank borrowings		
Unsecured borrowings	$ 1,256,500	$ 2,692,520
Interest rate range	0.45%~2.68	0.47%~3.4%

(13)Bonds payable (December 31, 2018: None)

	December 31, 2019
Bonds payable	$ 2,300,000
Less: Current portion	-
	$ 2,300,000

The terms of the first domestic unsecured corporate bonds issued in 2019 by the Company are as follows:

The Company issued the first domestic unsecured corporate bonds in 2019 amounting to $2,300,000 based on the face value at an annual rate of 1.02%, as approved by the regulatory authority. The bonds mature in 5 years from the issue date, the period is from July 26, 2019 to July 26, 2024. The bonds were listed on the Taipei Exchange on July 26, 2019 and will be redeemed in cash at face value at the maturity date.

(14) Finance lease liabilities

Prior to 2019

A. The Group entered into a contract with the Industrial Development Bureau, Ministry of Economic Affairs to lease an office space in Nankang Software Industrial Park on August 15, 2003. The leasing period is from August 2003 to August 2023 and the Group has a renewal option. In addition, the Group has a bargain purchase option within the lease term. In accordance with terms of the lease contract, the rate of rent of buildings in the Park was approved by the Industrial Development Bureau, and the prescribed rental rate was based on the month the contract was entered into. The prescribed rental rate would be adjusted every January 1 and July 1 based on the rate of mid-term and long-term loans of capital of the Executive Yuan, and adjusted every year based on the base month rent and Consumer Price Index which was published by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

B. Future minimum lease payments and their present values as at December 31, 2018 are as follows:

	December 31, 2018		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current			
Not later than one year	$ 16,298	($ 2,376)	$ 13,922
Non-current			
Later than one year but not later than five years	116,443	(16,906)	99,537
Later than five years	-	-	-
	116,443	(16,906)	99,537
	$ 132,741	($ 19,282)	$ 113,459

(15) Pensions

A. Defined benefit plans

(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) Amounts recognised in balance sheet is as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligation	$ 142,268	$ 134,185
Fair value of plan assets	(86,080)	(77,321)
Net defined benefit liabilities	$ 56,188	$ 56,864

(c) Change of net defined obligation is as follows:

Year 2019	Defined benefit obligation	Fair value of plan assets	Net defined benefit obligation
January 1	$ 134,185	($ 77,321)	$ 56,864
Current service cost	452	-	452
Interest (expense) income	1,208	(696)	512
	135,845	(78,017)	57,828
Remeasurements:			
Change in financial assumptions	2,454	-	2,454
Experience adjustments	3,969	(2,939)	1,030
	6,423	(2,939)	3,484
Pension fund contribution	-	(5,124)	(5,124)
December 31	$ 142,268	($ 86,080)	$ 56,188

Year 2018	Defined benefit obligation	Fair value of plan assets	Net defined benefit obligation
January 1	$ 134,218	($ 76,408)	$ 57,810
Current service cost	456	-	456
Interest (expense) income	1,476	(840)	636
	136,150	(77,248)	58,902
Remeasurements:			
Change in financial assumptions	2,475	-	2,475
Experience adjustments	1,960	(2,168)	(208)
	4,435	(2,168)	2,267
Pension fund contribution	-	(4,305)	(4,305)
Paid pension	(6,400)	6,400	-
December 31	$ 134,185	($ 77,321)	$ 56,864

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The assumptions of pensions are as follows:

	Years ended December 31,	
	2019	2018
Discount rate	0.70%	0.90%
Future salary increases	3.00%	3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

The effect to defined benefit obligation since changing of main actuarial assumptions is as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2019				
Effect to present value of defined benefit obligation	$ 3,058	$ 3,158	$ 2,727	$ 2,659
December 31, 2018				
Effect to present value of defined benefit obligation	$ 3,083	$ 3,188	$ 2,782	$ 2,710

The sensitivity analysis is based on other assumptions that are unchanged to analyse the effect of one assumption that changed. In practice, more than one assumption may change all at once. The method used to calculate the net pension liabilities in the balance sheet and sensitivity analysis is the same. The method used in the preparation of sensitivity analysis in the current period is the as same as in the previous period.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2020 amounts to $5,302.

(g) As of December 31, 2019, the weighted average duration of the pension plan is nine years. The analysis of timing of the future pension payment was as follows:

Not later than 1 year	$ 10,219
1 to 2 years	6,740
2 to 5 years	32,212
More than 5 years	43,566
	$ 92,737

B. Defined contribution plans

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

(b) The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The Group's other foreign subsidiaries contributed pension to the relevant pension authorities under local regulations.

(d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2019 and 2018, were $219,897 and $213,310, respectively.

(16) Share-based payment

A. Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

B. The arrangements of share-based payment for the years ended December 31, 2019 and 2018 are as follows:

Type of arrangement	Grant date	Grant quantity (in thousand)	Contract period	Vesting condition
Employee option plan	2015.5.27	10,000	10 years	(Note)
Treasury share to employee plan	2018.11.4	10,000	NA	immediately

(Note) The Company issues new shares when employees exercise options. The granted period of option and exercisable ratio are as follows:

Granted period of option	Accumulated ratio of exercisable stock option
After 2 years	50%
After 3 years	75%
After 4 years	100%

C. Details of the share-based payment arrangements are as follows:

	2019		2018	
	No. of options (in thousand)	Weighted-average exercise price (in dollars)	No. of options (in thousand)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	7,266	$ 51.60	7,266	$ 54.50
Options granted	-	-	10,000	49.62
Options exercised	(3,401)	49.70	(10,000)	49.62
Options outstanding at December 31	3,865	49.70	7,266	51.60
Options exercisable at December 31	3,865		7,266	

D. The weighted-average stock price of stock options at exercise dates for the year ended December 31, 2019 was $74.6.

E. As at December 31, 2019 and 2018, the range of exercise prices of stock options outstanding was NT$49.7 and NT$51.6 (in dollars), respectively; the weighted-average remaining contractual period was 1.875 years and 2.875 years, respectively.

F. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	2015.5.27							
-After 2 years		$ 63.6	$ 57.6	27.79%	6.0 years	4.79%	1.17%	$ 9.15
-After 3 years		63.6	57.6	27.79%	6.5 years	4.79%	1.24%	9.26
-After 4 years		63.6	57.6	27.79%	7.0 years	4.79%	1.31%	9.34

Note 1: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the shares issued for cash, the appropriation of earnings, issuance of new shares in connection with merger, or issuance of new shares of other companies) in accordance with the employee stock option plan.

Note 2: Expected price volatility is based on the historical average volatility on return of one year before valuation date. The source is from the Taiwan Stock Exchange.

Note 3: The expected life of the share options is based on historical date and current expectations.

G. The Company transferred treasury shares to employees, the fair value of the stock options and its detailed information are as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Fair value per share (in dollars)
Treasury share to employee plan	2018.11.14	$ 52.20	$ 49.62	$ 2.58

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

	Years ended December 31,	
	2019	2018
Compensation costs	$ 2,919	$ 35,497

(17) Current provisions

	2019	2018
At January 1	$ 100,615	$ 9,566
Additional provisions	217,769	99,114
Used and reversal during the year	(130,048)	(8,033)
Effect of exchange rate changes	(288)	(32)
At December 31	$ 188,048	$ 100,615

A provision for maintenance warranties is recognised for expected warranty claims on products sold, based on historical data of warranty and management's judgement. It is expected to be used during the coming year.

(18) Share capital

A. The Company's authorized capital was $5,000,000 and $2,500,000, as at December 31, 2019 and 2018, consisting of 500,000 thousand and 250,000 thousand shares, respectively. Paid-in capital were $2,490,548 and $2,456,538, respectively, with par value of NT$10. All proceeds from shares issued have been collected.

The change in the Company's share capital to $5,000,000 was approved at their shareholders' meeting on June 12, 2019, which had been registered.

The number of common shares at the beginning and the end of the period is reconciled as below:

	2019 (in thousand)	2018 (in thousand)
At January 1	241,696	245,654
Exercise of employee share options	3,401	-
Treasury share acquired	-	(10,000)
Treasury share transferred to employees	3,958	6,042
At December 31	249,055	241,696

B. In order to boost the Company's working capital, repay bank loans, enhance financial structure, purchase raw materials, and acquire funding needed for long-term development, the shareholders resolved in their meeting held on June 12, 2019 to raise capital by private offering of either common stock or domestic/foreign convertible bonds. Private offering of common stock shall not exceed 50,000 thousand shares, and private offering of domestic/foreign convertible bonds shall not exceed $3,000,000 or USD $100,000 thousand. Considering that the aforementioned capital increase was not processed within one year after the resolution date, the Company will no longer process the increase in capital as resolved by the Board of Directors on March 18, 2020.

C. Treasury shares

(a) Reasons for the share reacquisition and movements in the number of the Company's treasury shares are as follows: (December 31, 2019: None.)

		December 31, 2018	
Name of company holding	Reason for reacquisition	Number of shares (in thousand)	Carrying amount
The Company	To be reissued to employees	3,958	$ 196,383

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

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

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

(19) Capital surplus

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

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Trade of treasury Share	Employee stock options	Employee restricted stocks	Changes in ownership interests in subsidiaries
At January 1, 2019	$ 293,052	$ 1,382,485	$ 15,588	$ 74,527	$ 25,934	$ 8,628
Exercise of employee share options	166,489	-	-	(31,470)	-	-
Compensation cost of employee stock options	-	-	-	2,919	-	-
Transfer treasury share	-	-	10,212	(10,212)	-	-
At December 31, 2019	$ 459,541	$ 1,382,485	$ 25,800	$ 35,764	$ 25,934	$ 8,628

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Trade of treasury Share	Employee stock options	Employee restricted stocks	Changes in ownership interests in subsidiaries
At January 1, 2018	$ 293,052	$ 1,382,485	$ -	$ 54,618	$ 25,934	$ 8,628
Compensation cost of employee stock options	-	-	-	35,497	-	-
Transfer treasury share	-	-	15,588	(15,588)	-	-
At December 31, 2018	$ 293,052	$ 1,382,485	$ 15,588	$ 74,527	$ 25,934	$ 8,628

(20) Retained earnings

A. Under the Company's Articles of Incorporation adopted by the shareholders during their meeting, the current year's earnings, if any, shall first be used to pay all taxes and offset accumulated deficit and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of paid-in capital. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years and current adjustment on unappropriated earnings as distributable retained earnings, and shall be proposed by the Board of Directors and approved by the shareholders, and appropriated in accordance with the proportion of total share amount.

B. The policy for dividend distribution should reflect factors such as current and future investment environment, fund requirements, domestic and international competition and capital budgets, as well as the benefit of stockholders, share bonus equilibrium, and long-term financial planning etc. It could be paid in cash or in the form of share dividends. Accordingly, at least 10% of the dividends must be paid in the form of cash.

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

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

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

(c) As of January 1, 2018, special reserve set aside for the first-time adoption of IFRSs amount to $131,678. Furthermore, the Company did not reverse special reserve to retained earnings during the years ended December 31, 2019 and 2018 as a result of the use, disposal or reclassification of related assets. As of December 31, 2019 and 2018, the amount of special reserve set aside for the first-time adoption of IFRSs all amounted to $131,678.

E. (a) Details of 2018 and 2017 earnings appropriation resolved by the stockholders on June 12, 2019 and June 5, 2018, respectively, are as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve appropriated	$ 80,759		$ 131,187	
Special reserve appropriated	-		281,284	
Reversal of special reserve	(31,550)		-	
Cash dividends	612,239	$ 2.50	921,201	$ 3.75

Information about the appropriation of retained earnings of the Company as proposed by the Board of Directors and resolved by the shareholders' will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(b) Details of 2019 earnings appropriation proposed by the Board of Directors on March 18, 2020 are as follows:

	Year ended December 31, 2019	
	Amount	Dividends per share (in dollars)
Legal reserve appropriated	$ 103,560	
Special reserve appropriated	127,212	
Cash dividends	747,164	$ 3.00

F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(27).

(21) Other equity items

	2019			
	Financial statements translation differences of foreign operations	Unrealised gains (losses) on financial assets at fair value through other comprehensive income	Gains (losses) on hedging instruments	Total
At January 1, 2019	($ 361,896)	($ 52,833)	$ 33,316	($ 381,413)
Currency translation differences:				
–Group	(214,588)	-	-	(214,588)
Valuation adjustment	-	57,369	-	57,369
Revaluation – tax	-	2,204	-	2,204
Revaluation transferred to retained earnings-gross	-	(5,430)	-	(5,430)
Gains (losses) on hedging instruments:				
-Gain (loss) on fair value	-	-	154,589	154,589
-Tax on fair value gains (losses)	-	-	(30,918)	(30,918)
-Transfers to sales of goods	-	-	(94,739)	(94,739)
-Tax on transfers to sales of goods	-	-	18,948	18,948
-Transfers to inventories	-	-	(13,475)	(13,475)
-Tax on transfers to inventories	-	-	2,695	2,695
-Ineffective hedging transfer to profit or loss	-	-	(4,835)	(4,835)
-Tax on ineffective hedging transfer to profit or loss	-	-	967	967
At December 31, 2019	($ 576,484)	$ 1,310	66,548	($ 508,626)

	2018			
	Financial statements translation differences of foreign operations	Unrealised gains (losses) on financial assets at fair value through other comprehensive income	Gains (losses) on hedging instruments	Total
At January 1, 2018	($ 210,063)	$ 13,486	($ 219,087)	($ 415,664)
Currency translation differences:				
–Group	(128,500)	-	-	(128,500)
–Tax on Group	(23,333)	-	-	(23,333)
Valuation adjustment	-	(70,338)	-	(70,338)
Revaluation – tax	-	4,019	-	4,019
Gains (losses) on hedging instruments:				
-Gain (loss) on fair value	-	-	186,134	186,134
-Tax on fair value gains (losses)	-	-	(8,329)	(8,329)
-Transfers to sales of goods	-	-	99,918	99,918
-Tax on transfers to inventories			(25,320)	(25,320)
At December 31, 2018	($ 361,896)	($ 52,833)	$ 33,316	($ 381,413)

(22) Operating revenue

A. Disaggregation of revenue from contracts with customers

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and also in each reportable operating segment:

	Years ended December 31, 2019	Years ended December 31, 2018
Wireless networking products	$ 27,780,493	$ 29,807,013
Wired networking products	4,016,637	3,577,928
	$ 31,797,130	$ 33,384,941

B. Contract liabilities

Contract liabilities recognised by the Group as a result of revenue from contracts with customers are as follows:

	December 31, 2019	December 31, 2018	January 1, 2018
Sales contract	$ 72,144	$ 214,498	$ 67,142

(a) Significant changes in contract liabilities
For the year ended December 31, 2018, the Group's advanced payment from customers for product development is increasing due to the recent application for 5G network technology; for the year ended December 31, 2019, the advanced payment from customers is decreasing due to the mass commercial production.

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period

	Years ended December 31, 2019	Years ended December 31, 2018
Sales contract	$ 214,498	$ 54,739

C. Refund liabilities

Sales revenue was recognised based on contract price net of sales discounts and allowances. The merchandise is often sold with sales discounts and allowances based on aggregate sales over a 12-month period. Accumulated experience is used to estimate and provide for the sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The payment terms for sales are normally 30 to 210 days after delivery. The time between the transfer of promised goods or services to the client and collection of payment does not exceed one year. Therefore, the Group does not adjust the transaction price to reflect the time value of money.

	December 31, 2019	December 31, 2018
Refund liabilities	$ 166,421	$ 177,889

(23) Other income

	Years ended December 31,	
	2019	2018
Interest income	$ 95,523	$ 65,087
Dividend income	33,198	32,564
Rental revenue	447	817
Gains on write-off of past due payable	-	4,112
Gain on reversal of other liabilities	-	99,898
Others	9,630	33,552
	$ 138,798	$ 236,030

Considering the rapid changes in products and percentage of penalty with regards to recent foreign court rulings for product infringement (please refer to Note 9), the Group adjusted other current liabilities and then recognised gain on write-off of other liabilities.

(24) Other gains and losses

	Years ended December 31,	
	2019	2018
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	$ 219,765	($ 53,223)
Net currency exchange gains (losses)	40,513	(52,779)
(Losses) gains on disposals of property, plant and equipment	(5,651)	496
(Losses) gains on disposals of intangible assets	(53)	100,424
Impairment loss-investments accounted for using equity method	-	(20,707)
Others	(2,267)	(8,057)
	$ 252,307	($ 33,846)

A. Considering the Group was no longer expecting hedge instruments, the Group reclassified hedging instruments to net gains on financial assets at fair value through profit and loss amounting to $3,868 for the year ended December 31, 2019.

B. For the information relating to the gains on disposal of patent rights, please refer to Note 6(2).

(25) Finance costs

	Years ended December 31,	
	2019	2018
Interest expense		
-Bank borrowing	$ 75,212	$ 69,947
-Lease contracts	11,657	2,414
-Bonds payable	10,155	-
	$ 97,024	$ 72,361

(26) Additional information of expenses by nature

	Years ended December 31, 2019	Years ended December 31, 2018
Employee benefit expense	$ 3,753,442	$ 3,636,770
Depreciation charges on property, plant and equipment	487,634	491,533
Amortisation charges on intangible assets	94,110	93,055
Depreciation charges on right-of-use assets	71,708	-
	$ 4,406,894	$ 4,221,358

(27) Employee benefit expense

	Years ended December 31, 2019	Years ended December 31, 2018
Wages and salaries	$ 3,188,450	$ 3,075,846
Pension costs	220,861	214,402
Labor and health insurance fees	126,217	102,764
Directors' remuneration	30,154	25,237
Employee compensation cost	2,919	35,497
Other personnel expenses	184,841	183,024
	$ 3,753,442	$ 3,636,770

A. According to the Articles of Incorporation, 12%-18% of profit of the current year is distributable as employees' compensation and no higher than 2.5% of profit of the current year is distributable as remuneration to directors. Qualification requirements of employees include the employees of subsidiaries of the company meeting certain specific requirements. If the Company has an accumulated deficit, earnings should be reserved to cover losses. Independent directors did not participate in the abovementioned distribution of directors' remuneration.

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at $$231,275 and $197,233, respectively; directors' remuneration was accrued at $22,725 and $17,767,respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2019, the employees' compensation and directors' remuneration were estimated and accrued based on 15.81% and 1.55% of distributable profit of current year for the year ended December 31, 2019.

The 2018 employees' compensation and directors' remuneration as resolved by the Board of Directors amounted to $197,233 and $17,767, respectively and these is no difference with financial statement in 2018. The employees' compensation and directors' remuneration will be distributed in the form of cash.

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

(28) Income tax

A. Income tax expense

(a)Components of income tax expense:

	Years ended December 31, 2019	Years ended December 31, 2018
Current tax:		
Current tax on profits for the period	$ 250,882	$ 217,844
Prior year income tax (over) underestimation	(54,350)	12,016
Total current tax	196,532	229,860
Deferred tax:		
Origination and reversal of temporary differences	46,803	(29,180)
Impact of change in tax rate	-	(18,565)
Total deferred tax	46,803	(47,745)
Income tax expense	$ 243,335	$ 182,115

(b)The income tax charge/(credit) relating to components of other comprehensive income is as follows:

	Years ended December 31, 2019	Years ended December 31, 2018
Hedging instruments benefit of effective hedging in cash flow hedging	$ 8,308	$ 8,329
Remeasurement of defined benefit obligations	(698)	(454)
Changes in fair value of financial assets at fair value through other compressive income	(2,204)	(3,921)
Currency translation differences	-	23,333
Impact of change in tax rate	-	(996)
	$ 5,406	$ 26,291

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31, 2019	Years ended December 31, 2018
Tax calculated based on profit before tax and statutory tax rate (note)	$ 295,434	$ 299,589
Expenses disallowed by tax regulation	34,727	30,397
Tax exempt income by tax regulation	(26,965)	(141,378)
Prior year income tax (over) underestimation	(54,350)	12,016
Effect from investment tax credits	(39,393)	-
Taxable loss not recognised as deferred tax assets	24,668	-
Temporary difference not recognised as deferred tax assets	5,091	-
Change in assessment of realisation of deferred tax assets	(3,273)	-
Tax on undistributed earnings	7,396)	-
Effect from changes in tax regjlation	-	(18,565)
Other effect from adjustments under tax regulation	-	56
Income tax expense	$ 243,335	$ 182,115

Note: The basis of the applicable tax rate is calculated based on the applicable tax rate of the relevant country.

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

	January 1, 2019	Recognised in profit or loss	Recognised in other comprehensive income	Translation differences	December 31, 2019
Deferred tax assets:					
Temporary differences:					
Unrealized bonus and other expenses	$ 236,487	($ 22,364)	$ -	($ 2,878)	$ 211,245
Unrealized inventory loss	36,729	15,214	-	(1,449)	50,494
Refund liabilites	35,578	(2,294)	-	-	33,284
Current provision	34,769	3,315	-	(72)	38,012
Unrealized loss on financial assets at fair value	25,132	(19,562)	2,204	-	7,774
Unrealized foreign exchange loss	14,260	(13,604)	-	-	656
Net defined benefit liabilites	11,372	(833)	698	-	11,237
Expected credit loss	1,229	(237)	-	(13)	979
Tax losses	1,783	(435)	-	166	1,514
Investment tax credits	-	9,012	-	-	9,012
Subtotal	397,339	(31,788)	2,902	(4,246)	364,207
Deferred tax liabilities					
Temporary differences:					
Income from investment accounted for using equity method	(113,835)	(15,462)	-	412	(128,885)
Tax difference from research development expenditure	(14,191)	417	-	-	(13,774)
Urealized gain on hedging instruments	(8,329)	-	(8,308)	-	(16,637)
Tax difference from depreciation	(1,845)	30	-	55	(1,760)
Subtotal	(138,200)	(15,015)	(8,308)	467	(161,056)
Total	$ 259,139	($ 46,803)	($ 5,406)	($ 3,779	$ 203,151

	January 1, 2019	Recognised in profit or loss	Recognised in other comprehensive income	Translation differences	December 31, 2019
Deferred tax assets:					
Temporary differences:					
Unrealized bonus and other expenses	$ 222,158	$ 16,503	$ -	($ 2,174)	$ 236,487
Unrealized inventory loss	39,393	(2,100)	-	(564)	36,729
Refund liabilities	18,015	30,997	-	(1,370)	47,642
Current provision	1,738	19,649	-	1,318	22,705
Unrealized loss on financial assets at fair value	3,103	18,018	4,019	(8_	25,132
Unrealized foreign exchange loss	7,023	7,237	-	-	14,260
Net defined benefit liabilites	9,827	193	1,352	-	11,372
Expected credit loss	-	1,229	-	-	1,229
Tax losses	-	1,935	-	(152)	1,783
Subtotal	301,257	93,661	5,371	(2,950)	397,339
Deferred tax liabilites					
Temporary differences:					
Income from investment accounted for using equity method	(46,160)	(44,342)	(23,333)	-	(113,835)
Tax difference from research development expenditure	(12,521)	(1,670)	-	-	(14,191)
Urealized gain on hedging instruments	-	-	(8,329)	-	(8,329)
Tax difference from depreciation	(1,890)	(8)	-	53	(1,845)
Unrealized gain on financial assets at fair value	(44)	44	-	-	-
Others	60	60	-	-	-
Subtotal	(60,675)	(45,916)	(31,662)	53	(138,200)
Total	$ 240,582	$ 47,745	($ 26,291)	($ 2,897)	$ 259,139

D. Details of the amount the Group is entitled as investment tax credit are as follows: (December 31, 2018: none)

December 31, 2019			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Research and development	$ 12,874	$ 3,862	2020

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

December 31, 2019					
Region	Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
Mainland China	2015-2019	$ 47,977	$ 47,977	$ 8,265	2025-2029
Americas	2019	103,676	103,676	21,880	Note
Europe	2019	12,411	12,411	2,358	Note
North Asia	2018	10,779	6,773	-	Note

Note: Under the regulations of the country where the overseas subsidiaries are located, tax losses can be applied to taxable profit in the succeeding years with no limitation on times.

F. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	December 31, 2019	December 31, 2018
Deducible temporary differences	$ 126,513	$ 78,506

G. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2019 and 2018, the amounts of temporary difference unrecognised as deferred tax liabilities were $737,203 and $748,956, respectively.

H. Assessment and approval of income tax by the Tax Authority:

	Assessment and approval of income tax returns
The Company	2016
Shukuan Investment Ltd.	2016

I. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(29) Earnings per share

	Year ended December 31, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to the parent	$ 1,032,953	245,582	$ 4.21
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' options	-	1,988	
Employees' compensation	-	3,575	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	$ 1,032,953	251,145	$ 4.11

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to the parent	$ 807,586	243,273	$ 3.32
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' options	-	1,534	
Employees' compensation	-	3,691	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	$ 807,586	248,498	$ 3.25

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issuance.

(30) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31, 2019	Years ended December 31, 2018
Purchase of property, plant and equipment	$ 514,573	$ 526,081
Add: Ending balance of advance payment	61,407	55,897
Less: Opening balance of advance payment	(55,897)	(9,162)
Add: Opening balance of equipment payable	104,638	98,645
Less: Ending balance of equipment payable	(65,142)	(104,638)
Cash paid during the period	$ 559,579	$ 566,823

	Years ended December 31, 2019	Years ended December 31, 2018
Purchase of intangible assets	$ 70,230	$ 157,127
Add: Ending balance of advance payment	90,720	59,442
Less: Opening balance of advance payment	(59,442)	(38,364)
Add: Opening balance of equipment payable	6,127	1,389
Less: Ending balance of equipment payable	(2,474)	(6,127)
Cash paid during the period	$ 105,161	$ 173,467

(31) Changes in liabilities from financial activities

	Short-term borrowings	Guarantee deposits received	Lease liabilities	Bonds payable	Liabilities from financial activities-gross
At January 1, 2019	$ 2,692,520	$ 2,937	$ 420,370	$ -	$ 3,115,827
Changes in cash flow from financial activities	(1,436,020)	2,364	(93,613)	2,300,000	772,731
Impact of changes in foreign exchange rate	-	(183)	3,580	-	3,397
Changes in other non-cash items	-	-	66,640	-	66,640
At December 31, 2019	$ 1,256,500	$ 5,118	$ 396,978	$ 2,300,000	$ 3,958,596

	Short-term borrowings	Guarantee deposits received	Lease liabilities	Bonds payable	Liabilities from financial activities-gross
At January 1, 2018	$ 1,876,361	$ 4,254	$ 127,878	$ -	$ 2,008,493
Changes in cash flow from financial activities	816,159	(1,317)	(14,419)	-	800,423
Impact of changes in foreign exchange rate	-	-	(276)	-	(276)
Changes in other non-cash items	-	-	-	-	-
At December 31, 2018	$ 2,692,520	$ 2,937	$ 113,459	$ -	$ 2,808,916

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Years ended December 31, 2019	2018
Short-term employee benefits	$ 133,800	$ 232,267
Post-employee benefits	1,764	1,919
Share-based payment	1,738	15,359
	$ 137,302	$ 249,545

8. PLEDGED ASSETS

The Group’s assets pledged as collateral are as follows:

Pledged asset	December 31, 2019	December 31, 2018	Purpose
Guarantee deposits paid	$ 41,311	$ 57,773	Custom duty guarantee and performance guarantee
Restricted assets-current (shown as other current assets)	153,411	74,637	Bank acceptance bill
	$ 194,722	$ 132,410	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

A. The Company has entered into an agreement with an overseas customer. The agreement provided that the overseas customer was required to pay a fee toward specified items prescribed in the agreement and the Company shall be liable for any third party infringement claims. The amount received has been deposited in a trust fund set up by the Company. The Company recognised the trust fund as other financial assets-noncurrent and other current liabilities.

	December 31, 2019	December 31, 2018
Other non-current financial assets	$ 70,140	$ 69,438
Other current liabilities	57,811	57,811

As of December 31, 2019 and 2018, the accumulated interest of the trust fund assets was recognised as 'other financial assets-noncurrent' in the amounts of $12,329 and $11,627, respectively.

B. Prior to 2018, the Group has entered into non-cancellable operating leases for certain plant, office and equipment. The lease periods are from one to eight years with the renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2018
Not later than one year	$ 90,844
Later than one year but not later than five years	172,012
Over five years	98,097
	$ 360,953

C. As of December 31, 2019, the amount of contracted but not yet paid instruments, equipment and construction was $38,301.

D. The amounts of Performance Letters of Guarantee issued by banks for the purpose of the research project of the Industrial Development Bureau, Ministry of Economic Affairs and shipment guarantee are as follows:

	December 31, 2019	December 31, 2018
NTD	$ 21,856	$ 23,976
EUR (in thousands)	1,000	1,127
USD (in thousands)	1,155	-

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On January 15, 2020, the Company entered into a contract with a former lessor, AFFECT TECHNOLOGY CORPORATION, to purchase an office located in Nankang Software Park in the amount of $240,000. As of the audit report date, the payment has been fully paid and the transfer was registered.

12. OTHERS

(1) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2019	December 31, 2018
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 41,674	$ 476,686
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	$ 292,825	$ 309,129
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	$ 7,274,715	$ 5,357,910
Notes receivable	632,430	898,632
Accounts receivable	5,105,140	5,642,324
Other receivables	1,718,531	925,295
Guarantee deposits paid	74,134	88,702
Other financial assets	70,140	69,438
	$ 14,875,090	$ 12,982,301
Derivative financial assets for hedging	$ 83,186	$ 41,644

	December 31, 2019	December 31, 2018
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	$ 1,742	$ 560
Financial liabilities at amortised cost		
Short-term borrowings	$ 1,256,500	$ 2,692,520
Notes payable	755,044	518,089
Accounts payable	9,920,778	9,331,166
Other payables	2,766,303	2,662,405
Bond payable	2,300,000	-
Finance lease liabilities (including current portion)	-	113,459
Guarantee deposits receivable	5,118	2,937
	$ 17,003,743	$ 15,320,576
Lease liability (including current portion)	$ 396,978	$ -

B. Financial risk management policies

(a) The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

(b) The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(c) To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments. Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Notes 6(2) and (4).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Exchange rate risk

i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and EUR. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.

ii. The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria.

iii. The Group's risk management policy is to hedge anticipated cash flows from annual sales in EUR and annual purchase in USD for the subsequent year.

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

	December 31, 2019		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 248,731	30.11	$ 7,488,295
RMB:NTD	508,155	4.32	2,196,093
USD:RMB	24,280	6.97	730,974
EUR:NTD	18,868	33.75	636,772
RUB:NTD	551,032	0.48	266,975
JPY:NTD	593,676	0.28	164,508
Non-monetary items			
USD:NTD	$ 3,005	30.11	$ 90,474
Investments accounted for using equity method			
EUR:NTD	$ 174	33.75	$ 5,865

	December 31, 2019		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
Financial liabilities			
Monetary items			
USD:NTD	$ 139,079	30.11	$ 4,187,112
USD:RMB	129,910	6.97	3,911,070
RMB:NTD	603,853	4.32	2,609,672
EUR:NTD	15,000	33.75	506,232

	December 31, 2018		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 194,475	30.73	$ 5,976,217
RMB:NTD	775,042	4.48	3,472,188
EUR:NTD	15,426	35.20	542,995
RUB:NTD	710,324	0.44	312,543
JPY:NTD	579,151	0.28	162,162
Non-monetary items			
USD:NTD	$ 1,318	30.73	$ 40,504
Investments accounted for using equity method			
EUR:NTD	$ 263	35.20	$ 9,251
Financial liabilities			
Monetary items			
USD:NTD	$ 81,223	30.73	$ 2,495,983
USD:RMB	166,499	6.87	5,124,440
RMB:NTD	538,853	4.48	2,414,061
EUR:NTD	16,000	35.20	563,200

v. It is not applicable to disclose the exchange gains or losses for each functional currency due to the fact that the functional currencies used by the Group's entities are diverse.

vi. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018, amounted to $40,513 and ($52,779), respectively.

vii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 74,883	$ -
RMB:NTD	1%	21,961	-
USD:RMB	1%	7,310	-
EUR:NTD	1%	6,368	-
RUB:NTD	1%	2,670	-
JPY:NTD	1%	1,645	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 41,871	$ -
USD:RMB	1%	39,111	-
RMB:NTD	1%	26,097	-
EUR:NTD	1%	5,062	-

	Year ended December 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 59,762	$ -
RMB:NTD	1%	34,722	-
EUR:NTD	1%	5,430	-
RUB:NTD	1%	3,141	-
JPY:NTD	1%	1,612	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 24,960	$ -
USD:RMB	1%	51,244	-
RMB:NTD	1%	24,141	-
EUR:NTD	1%	5,632	-

Price risk

i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

ii. The Group's investments in equity and debt securities comprise shares issued by the domestic and foreign companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity and debt securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by $234 and $4,623, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would have increased/decreased by $2,747 and $3,010, respectively.

Cash flow and fair value interest rate risk

i. The Group's main interest rate risk arises from short-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. As of December 31, 2019 and 2018, the Group's borrowings at variable rate were mainly denominated in New Taiwan dollars.

ii. The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

iii. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, profit, net of tax for the years ended December 31, 2019 and 2018 would have increased/decreased by $10,052 and $21,540, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost and at fair value through profit or loss.

ii. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customers' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

iii. Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions with high credit rating.

iv. The Group adopted experience of historical transactions to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition. If the contract payments were past due over 90 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition. The default occurs when the contract payments are past due over 270 days.

v. The following indicators are used to determine whether the credit impairment of financial assets has occurred:

(i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;

(ii) Default.

vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the simplified approach using provision matrix or loss rate methodology to estimate expected credit loss.

vii. After recourse procedures, the Group writes-off the amount of the recoverable financial assets which is not reasonably expected to be recovered, but the Group will continue to pursue the legal right of recourse to protect the claims. As of December 31, 2019 and 2018, the Group's claims for write-offs and recourse activities were $0 and $2,968, respectively.

viii. The Group used the forecast ability of Taiwan Institute of Economic Research report to adjust historical and timely information to assess the default possibility of notes and accounts receivable. As of December 31, 2019 and 2018, the provision matrix are as follows:

December 31, 2019	Without past due	Up to 1-90 days	Up to 91 to 180 days	Up to 181 to 270 days	Over 271 days	Total
Group 1						
Expected loss rate	0.07%	0.83%	1.97%	-	-	
Total book value	$ 4,087,984	$ 661,824	$ 95,043	$ -	$ 1	$ 4,844,851
Loss allowance	$ 2,877	$ 5,461	$ 1,874	$ -	$ 1	$ 10,212
Group 2						
Expected loss rate	0.11%	0.68%	-	-	-	
Total book value	$ 785,370	$ 110,473	$ -	$ -	$ -	$ 895,843
Loss allowance	$ 838	$ 747	$ -	$ -	$ -	$ 1,585
Total book value	$ 4,873,354	$ 772,297	$ 95,043	$ -	$ 1	$ 5,740,694
Loss allowance	$ 3,715	$ 6,208	$ 1,874	$ -	$ 1	$ 11,797

December 31, 2018	Without past due	Up to 1-90 days	Up to 91 to 180 days	Up to 181 to 270 days	Over 271 days	Total
Group 1						
Expected loss rate	0.06%	1.32%	11.35%	-	-	
Total book value	$ 4,431,131	$ 884,216	$ 62,523	$ -	$ -	$ 5,377,870
Loss allowance	$ 2,783	$ 11,665	$ 7,099	$ -	$ -	$ 21,547
Group 2						
Expected loss rate	0.09%	1.88%	23.84%	100%	100%	
Total book value	$ 262,838	$ 12,188	$ -	$ 1,168	$ 922	$ 277,116
Loss allowance	$ 248	$ 229	$ -	$ 1,168	$ 922	$ 2,567
Total book value	$ 4,693,969	$ 896,404	$ 62,523	$ 1,168	$ 922	$ 5,654,986
Loss allowance	$ 3,031	$ 11,894	$ 7,099	$ 1,168	$ 922	$ 24,114

Note: Customer types that are classified based on the Group's credit risk management policy are as follows:

Group 1: The customers have been insured by professional insurance agency.

Group 2: The customers have not been insured by professional insurance agency.

Considering that the accounts receivable are insured, the Group derecognised the impairment loss amounting to $8,673 and $11,452 as of December 31, 2019 and 2018, respectively.

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

	2019	2018
At January 1	$ 12,662	$ 9,219
(Reversal of) provision for impairment loss	(9,453)	3,663
Write-offs	-	(191)
Effect of exchange rate changes	(85)	(29)
At December 31	$ 3,124	$ 12,662

(c) Liquidity risk

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

ii. The Group invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The Group has the following undrawn borrowing facilities:

	December 31, 2019	December 31, 2018
Floating rate:		
Expiring within one year	$ 9,238,793	$ 9,088,573

iv. The Group's non-derivative financial liabilities were analysed based on the remaining period at the balance sheet date to the contractual maturity date, derivative financial liabilities were analysed based on the fair value on balance sheet date.

Except that the contractual undiscounted cash flows of notes payable, accounts payable, other payables, cross currency swap contracts and forward foreign exchange contracts approximately equal to its book value and mature within one year, the contractual undiscounted cash flows of remaining financial liabilities are disclosed in the following table:

December 31, 2019	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Non-derivative financial liabilities				
Short-term borrowings	$ 1,270,559	$ -	$ -	$ -
Lease liabilities	86,909	79,042	192,167	94,980
Bonsd payable	33,615	23,460	2,336,765	-

December 31, 2018	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Non-derivative financial liabilities				
Short-term borrowings	$ 2,698,435	$ -	$ -	$ -
Lease obligations payable	16,298	16,298	100,145	-

The Group did not expect the occurrence timing of cash flow of expiry date analysis would be significantly earlier, or the actual amount would significantly differ.

(3) Fair value information

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

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

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

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

B. Financial instruments not measured at fair value

(a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, other current assets, short-term borrowings, notes payable, accounts payable, other payables and other current liabilities are approximate to their fair values.

	December 31, 2019			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial liabilities:				
Lease liabilities (including current portion)	$ 396,978	$ -	$ -	$ 396,978
Bonds payable	2,300,000	-	2,292,044	-
	$ 2,696,978	$ -	$2,292,044	$ 396,978

	December 31, 2018			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial liabilities:				
Lease obligations payable (including current portion)	$ 113,459	$ -	$ -	$ 132,741

(b) Lease liability/ lease obligations payable and bonds payable: They are measured at present value, which is calculated based on the cash flow expected to be paid and discounted using a market rate prevailing at balance sheet date.

C. Financial instruments and non-financial instruments measured at fair value

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

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Listed stocks	$ 28	$ -	$ -	$ 28
Unlisted stocks	-	-	27,771	27,771
Convertible bonds	-	-	1,490	1,490
Forward foreign exchange contracts	-	12,385	-	12,385
Cross currency swap	-	-	-	-
Financial assets for hedging				
Forward foreign exchange contracts	-	83,186	-	83,186
Financial assets at fair value through other comprehensive income				
Listed stocks	176,587	-	-	176,587
Unlisted stocks	-	-	116,238	116,238
	$ 176,615	$ 95,571	$ 145,499	$ 417,685
Liabilities				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Cross currency swap	$ -	($ 1,742)	$ -	($ 1,742)

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Listed stocks	$ 428,828	$ -	$ -	$ 428,828
Unlisted stocks	-	-	33,088	33,088
Convertible bonds	-	-	8,709	8,709
Forward foreign exchange contracts	-	4,220	-	4,220
Cross currency swap	-	1,841	-	1,841
Financial assets for hedging				
Forward foreign exchange contracts	-	41,644	-	41,644
Financial assets at fair value through other comprehensive income				
Listed stocks	250,259	-	-	250,259
Unlisted stocks	-	-	58,869	58,869
	$ 679,087	$ 47,705	$ 100,666	$ 827,458
Liabilities				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Cross currency swap	$ -	$ 560	$ -	$ 560

(b) The methods and assumptions the Group used to measure fair value are as follows:

i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Closed-end fund	Open-end fund	Government bonds	Corporate bonds	Convertible (exchangeable) bond
Market quoted price	Closing price	Closing price	Net asset value	Transaction price	Weighted average quoted price	Closing price

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

iv. For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Group must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3) I.

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

vi. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

vii. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

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

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

	Convertible bonds	Equity securities	Total
At January 1, 2019	$ 8,710	$ 91,957	$ 100,667
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through profit or loss	(1,000)	(4,769)	(5,769)
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	(3,621)	(3,621)
Acquired in the period	-	61,000	61,000
Settlement in the period	(6,220)	-	(6,220)
Liquidated in the period		(10)	-
Effect of exchange rate changes	-	(548)	(548)
At December 31, 2019	$ 1,490	$ 144,009	$ 145,509

	Convertible bonds	Equity securities	Total
At January 1, 2018	$ 24,121	$ 83,752	$ 107,873
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	(24,883)	(24,883)
Other gain and loss in book	(19,378)	-	(19,378)
Acquired in the period	3,967	33,088	37,055
At December 31, 2018	$ 8,710	$ 91,957	$ 100,667

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

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

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

	Fair value at December 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship between inputs and fair value
Non-derivative equity instrument:					
Unlisted stocks	$ 144,009	Market comparable companies	Discount for lack of marketability	10%~ 54.76%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	$ 1,490	Market comparable companies and binomial model	Volatility	38.54%~ 48.54%	The higher the volatility, the higher the fair value

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship between inputs and fair value
Non-derivative equity instrument:					
Unlisted stocks	$ 91,957	Market comparable companies	Discount for lack of marketability	10%~ 52.88%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	$ 8,710	Market comparable companies and binomial model	Volatility	34.57%~ 47.65%	The higher the volatility, the higher the fair value

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

			December 31, 2019			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instruments	Liquidity	±5%	$ 2,722	$ 2,722	$ 10,521	$ 10,052
Hybrid instrument	Volatility	±5%	142	142	-	-
			$ 2,864	$ 2,864	$ 10,521	$ 10,521

			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instruments	Liquidity	±5%	$ -	$ -	$ 8,456	$ 8,456
Hybrid instrument	Volatility	±5%	676	676	-	-
			$ 676	$ 676	$ 8,456	$ 8,456

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

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

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

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

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: Please refer to table 4.

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

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

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), 6(4) and 12.

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to tables 1, 2, 5, 6 and 7.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

There is no material change in the basis for formation of entities and division of segments in the Group or in the measurement basis for segment information during this period.

(2) Measurement of segment information

The management evaluates the performance of the operating segments based on a measure of earnings before taxes. The accounting policies of the reportable operating segments is in a manner consistent with Group's significant accounting policies. Taxes are not allocated to operating segments, as this type of activity is driven by the Group’s central treasury function, which manages the cash position of the group.

The transfer pricing between segments is based on similar transactions with third parties.

(3) Segment information

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

For the year ended December 31, 2019:

	Taiwan	Mainland China	Others	Reconciliation and elimination	Total
Revenue from external customers	$ 25,658,611	$ 5,010,404	$ 1,128,115	$ -	$ 31,797,130
Inter-segment revenue	1,276,189	17,042,379	26,785	(18,345,353)	-
Total segment revenue	$ 26,934,800	$ 22,052,783	$ 1,154,900	($ 18,345,353)	$ 31,797,130
Segment income (loss)	$ 1,025,305	$ 414,836	$ 461	($ 162,700)	$ 1,277,902

For the year ended December 31, 2018:

	Taiwan	Mainland China	Others	Reconciliation and elimination	Total
Revenue from external customers	$ 25,569,773	$ 6,732,845	$ 1,082,323	$ -	$ 33,384,941
Inter-segment revenue	1,220,243	23,584,606	207,297	(25,012,146)	-
Total segment revenue	$ 26,790,016	$ 30,317,451	$ 1,289,620	($ 25,012,146)	$ 33,384,941
Segment income	$ 923,698	$ 431,518	$ 103,027	($ 427,823)	$ 1,030,420

(4) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length transaction. The revenue from external customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.

(5) Geographical information

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

	Year ended December 31, 2019	Year ended December 31, 2018
Americas	$ 14,550,419	$ 13,461,538
Europe	10,116,997	11,505,485
Asia	7,128,247	8,417,918
Others	1,467	-
	$ 31,797,130	$ 33,384,941

Revenue is categorized by the country in which the customer is located.

Non-current assets:

	Year ended December 31, 2019	Year ended December 31, 2018
Taiwan	$ 2,395,024	$ 2,095,202
Mainland China	1,691,161	1,778,012
Others	6,598	7,125
	$ 4,092,783	$ 3,880,339

(6) Major customer information

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

	Year ended December 31, 2019	Year ended December 31, 2018
A	$ 6,152,991	$ 7,813,763
B	3,827,594	3,411,821

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