

**ATEN INTERNATIONAL CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

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

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

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Representation Letter

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

Company name: ATEN INTERNATIONAL CO., LTD.

Chairman: Sun-Chung Chen

Date: March 10, 2020

Independent Auditors' Report

To the Board of Directors of ATEN INTERNATIONAL CO., LTD.:

Opinion

We have audited the consolidated financial statements of ATEN INTERNATIONAL CO., LTD. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Revenue recognition

Please refer to notes 4(o) and 6(q) for disclosure related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating ATEN INTERNATIONAL CO., LTD. and its subsidiaries' financial or operating performance. The accuracy of the timing and amount of revenue recognized have significant impact on the financial statements, for which the assumptions and judgments of revenue recognition rely on subjective judgment of the management. Hence, we consider it as the key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed included testing the effectiveness of the design and implementing the internal control (both manual and system control) of sales and collecting cycle; reviewing significant sales contract to determine whether the key judgments and assumptions of revenue recognition are reasonable; analyzing the changes in top 10 customers from the most recent period and last year, and the changes in the price and quantity of each category of product line to determine whether if there are any significant misstatements; selecting sales transactions from a period of time before and after the balance sheet date, and verifying them with the vouchers to determine the accuracy of the timing and amounts of revenue recognized; understanding whether if there is a significant subsequent sales return or discount; and reviewing whether the disclosure of revenue made by the management is appropriate.

2. Inventory measurement

Please refer to notes 4(h), 5, and 6(f) for disclosure related to inventory measurement.

Description of key audit matter:

The inventory is measured at the lower of cost and net realizable value. Due to the update of technology, the inventory might be out of date or no longer meets the requirement of the market, which may result in a decline on the price of the product resulting in the cost of the inventory to be higher than the net realizable value. The measurement of inventory depends on the evaluation of the management based on several evidences. Therefore, we consider it as a key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed is to understand the management's accounting policy of inventory measurement and determine whether it is reasonable and is being implement. The procedures include inspecting the method of inventory valuation assumption is consistently and evaluating whether the assumption is needed to be adjusted due to the operating and economic condition change. Obtaining the inventory valuation table, understanding the net realizable values by management and the variation of the prices, in the period after the reporting date, to ensure the appropriateness of the valuation price. Reviewing the reason and verifying the accuracy on past three years and current year's allowance of inventory. Assessing whether the disclosure of provision for inventory valuation is appropriate.

Other Matter

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing ATEN INTERNATIONAL CO., LTD. and its subsidiaries' 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the supervisors) are responsible for overseeing ATEN INTERNATIONAL CO., LTD. and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ATEN INTERNATIONAL CO., LTD. and its subsidiaries' 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause ATEN INTERNATIONAL CO., LTD. and its subsidiaries 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 group financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement audit partners issuing this independent auditors' report are Po-Shu Huang and Yung-Sheng Wang.

KPMG

Taipei, Taiwan (Republic of China)
March 10, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018				December 31, 2019		December 31, 2018	
Assets		Amount	%	Amount	%	Liabilities and Equity		Amount	%	Amount	%
11xx	Current assets:					21xx	Current liabilities:				
1100	Cash and cash equivalents (note 6(a))	\$ 741,720	11	692,377	10	2100	Short-term borrowings (notes 6(j) and 8)	\$ 706,466	11	756,907	11
1110	Financial assets at fair value through profit or loss—current (note 6(b))	1,591,007	24	1,417,936	20	2322	Current portion of long-term borrowings (notes 6(j) and 8)	8,822	-	10,200	-
1120	Financial assets at fair value through other comprehensive income—current (note 6(c))	5,375	-	4,642	-	2120	Financial liabilities at fair value through profit or loss—current (note 6(b))	1,369	-	2,247	-
1150	Notes receivable, net (note 6(d))	8,467	-	7,933	-	2150	Notes payable	3,948	-	4,363	-
1170	Accounts receivable, net (note 6(d))	619,952	9	721,109	10	2170	Accounts payable (note 7)	377,411	6	470,081	7
1200	Other receivables (notes 6(e) and (g))	3,125	-	653,669	9	2219	Other payable (notes 6 (m) and (r))	504,050	8	603,288	9
130x	Inventories(note 6(f))	985,248	16	1,058,080	15	2230	Current tax liabilities	150,369	2	142,356	2
1410	Prepayments	65,405	1	52,399	1	2250	Provisions—current (note 6(k))	24,790	-	22,660	-
1470	Other current assets	32,548	-	30,077	1	2280	Current lease liabilities (note 6(l))	55,285	1	-	-
	Total current assets	<u>4,052,847</u>	<u>61</u>	<u>4,638,222</u>	<u>66</u>	2399	Other current liabilities	64,498	1	62,754	1
15xx	Non-current assets:						Total current liabilities	<u>1,897,008</u>	<u>29</u>	<u>2,074,856</u>	<u>30</u>
1517	Financial assets at fair value through other comprehensive income—non-current (note 6(c))	21,780	-	21,780	-	25xx	Non-Current liabilities:				
1550	Investments accounted for under equity method (note 6(g))	84,809	1	75,559	1	2540	Long-term borrowings (notes 6(j) and 8)	26,625	-	25,983	-
1600	Property, plant and equipment (notes 6(h) and 8)	2,000,424	30	1,994,459	28	2570	Deferred income tax liabilities (note 6(n))	174,917	3	220,132	3
1755	Right-of-use assets (note 6(i))	143,751	3	-	-	2580	Non-current lease liabilities (note 6(l))	91,742	1	-	-
1805	Goodwill	2,756	-	2,756	-	2640	Net defined benefit liabilities (note 6(m))	96,369	1	98,977	1
1840	Deferred income tax assets (note 6(n))	207,177	3	175,348	3	2645	Deposits received	1,115	-	1,595	-
1915	Prepayments for equipment	6,906	-	-	-	2670	Other non-current liabilities	38,044	1	37,102	1
1920	Refundable deposits	17,800	-	20,251	-	2xxx	Total non-current liabilities	<u>428,812</u>	<u>6</u>	<u>383,789</u>	<u>5</u>
1980	Other financial assets—non-current (notes 8 and 9)	117,166	2	116,689	2		Total liabilities	<u>2,325,820</u>	<u>35</u>	<u>2,458,645</u>	<u>35</u>
1990	Other non-current assets	549	-	-	-	3110	Equity attributable to shareholders of the company (notes 6(m) and (o)):				
	Total non-current assets	<u>2,603,118</u>	<u>39</u>	<u>2,406,842</u>	<u>34</u>		Common stock	1,194,711	18	1,194,711	17
						3210	Capital surplus:				
						3250	Additional paid-in capital	316,913	5	316,913	4
						3260	Donated assets received	50	-	50	-
							Changes in equity of associates accounted for using equity method	28,671	-	26,186	-
								<u>345,634</u>	<u>5</u>	<u>343,149</u>	<u>4</u>
							Retained earnings:				
						3310	Legal reserve	1,271,617	19	1,114,004	16
						3320	Special reserve	107,295	2	94,045	1
						3350	Unappropriated retained earnings	1,454,776	22	1,858,269	27
								<u>2,833,688</u>	<u>43</u>	<u>3,066,318</u>	<u>44</u>
							Other equity interest:				
						3410	Financial statements translation differences for foreign operations	(110,346)	(2)	(89,763)	(1)
						3420	Unrealized gain (loss) on financial assets at fair value through other comprehensive income	(16,799)	-	(17,532)	-
								<u>(127,145)</u>	<u>(2)</u>	<u>(107,295)</u>	<u>(1)</u>
							Total equity attributable to shareholders of the company	<u>4,246,888</u>	<u>64</u>	<u>4,496,883</u>	<u>64</u>
						36xx	Non-controlling interests	83,257	1	89,536	1
						3xxx	Total equity	<u>4,330,145</u>	<u>65</u>	<u>4,586,419</u>	<u>65</u>
1xxx	Total assets	<u>\$ 6,655,965</u>	<u>100</u>	<u>7,045,064</u>	<u>100</u>	2-3xxx	Total liabilities and equity	<u>\$ 6,655,965</u>	<u>100</u>	<u>7,045,064</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

	2019		2018	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(q) and 7)	\$ 5,032,719	100	5,173,010	100
5000 Operating costs (notes 6(f), (h), (i), (k), (l), (m), (r) and 7)	<u>1,994,258</u>	<u>40</u>	<u>2,129,330</u>	<u>41</u>
5900 Gross profit	<u>3,038,461</u>	<u>60</u>	<u>3,043,680</u>	<u>59</u>
6000 Operating expenses (notes 6(d), (h), (i), (l), (m), (r) and 7):				
6100 Selling expenses	1,238,596	25	1,171,119	23
6200 Administrative expenses	546,764	11	548,523	10
6300 Research and development expenses	475,938	9	491,571	10
6450 Expected credit loss for bad debt expense	<u>829</u>	<u>-</u>	<u>2,353</u>	<u>-</u>
Total operating expenses	<u>2,262,127</u>	<u>45</u>	<u>2,213,566</u>	<u>43</u>
6900 Operating profit	<u>776,334</u>	<u>15</u>	<u>830,114</u>	<u>16</u>
7000 Non-operating income and expenses (notes 6(g), (l) and (s)):				
7010 Other income	120,632	2	30,171	-
7020 Other gains and losses	5,412	-	958,929	19
7050 Finance costs	(30,220)	(1)	(18,369)	-
7060 Share of profit of associates accounted for under equity method	<u>25,586</u>	<u>1</u>	<u>56,125</u>	<u>1</u>
Total non-operating income and expenses	<u>121,410</u>	<u>2</u>	<u>1,026,856</u>	<u>20</u>
7900 Profit from continuing operations before tax	897,744	17	1,856,970	36
7950 Less: Income tax expenses (note 6(n))	<u>171,124</u>	<u>3</u>	<u>269,219</u>	<u>5</u>
Net income	<u>726,620</u>	<u>14</u>	<u>1,587,751</u>	<u>31</u>
8300 Other comprehensive income (notes 6(g), (m), (n) and (o)):				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8311 Gains (losses) on remeasurements of defined benefit plans	49	-	681	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	733	-	268	-
8320 Share of other comprehensive income of associates accounted for using equity method	-	-	(65)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>(2)</u>	<u>-</u>	<u>101</u>	<u>-</u>
Components of other comprehensive income that will not be reclassified to profit or loss	<u>784</u>	<u>-</u>	<u>783</u>	<u>-</u>
8360 Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361 Exchange differences on translation of foreign financial statements	(22,539)	-	2,736	-
8370 Share of other comprehensive income of associates accounted for using equity method	(177)	-	(48)	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss	<u>(22,716)</u>	<u>-</u>	<u>2,688</u>	<u>-</u>
8300 Other comprehensive income	<u>(21,932)</u>	<u>-</u>	<u>3,471</u>	<u>-</u>
8500 Total comprehensive income	<u>\$ 704,688</u>	<u>14</u>	<u>1,591,222</u>	<u>31</u>
8600 Net income attributable to:				
8610 Shareholders of the parent	\$ 723,133	14	1,576,132	31
8620 Non-controlling interests	<u>3,487</u>	<u>-</u>	<u>11,619</u>	<u>-</u>
	<u>\$ 726,620</u>	<u>14</u>	<u>1,587,751</u>	<u>31</u>
8700 Total comprehensive income attributable to:				
8710 Shareholders of the parent	\$ 703,289	14	1,580,030	31
8720 Non-controlling interests	<u>1,399</u>	<u>-</u>	<u>11,192</u>	<u>-</u>
	<u>\$ 704,688</u>	<u>14</u>	<u>1,591,222</u>	<u>31</u>
Basic earnings per share (in New Taiwan dollars) (note 6(p))				
9750 Basic earnings per share	<u>\$ 6.05</u>		<u>13.19</u>	
9850 Diluted earnings per share	<u>\$ 5.95</u>		<u>12.92</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent						Total other equity interest			Non-controlling interests	Total equity	
	Share capital		Retained earnings				Financial statements translation differences for foreign operations	Unrealized gain (loss) on financial assets measured at fair value through other comprehensive income	Total			Total equity attributable to owners of parent
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total						
Balance at January 1, 2018	\$ 1,194,711	387,157	1,041,329	65,332	1,039,903	2,146,564	(92,885)	(17,660)	(110,545)	3,617,887	101,111	3,718,998
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	72,675	-	(72,675)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	28,713	(28,713)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(657,091)	(657,091)	-	-	-	(657,091)	(7,193)	(664,284)
Changes in equity of associates and joint ventures accounted for using equity method	-	(43,140)	-	-	65	65	-	-	-	(43,075)	-	(43,075)
Net income	-	-	-	-	1,576,132	1,576,132	-	-	-	1,576,132	11,619	1,587,751
Other comprehensive income	-	-	-	-	573	573	3,122	203	3,325	3,898	(427)	3,471
Total comprehensive income	-	-	-	-	1,576,705	1,576,705	3,122	203	3,325	1,580,030	11,192	1,591,222
Changes in non-controlling interests	-	(868)	-	-	-	-	-	-	-	(868)	(15,574)	(16,442)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	75	75	-	(75)	(75)	-	-	-
Balance at December 31, 2018	1,194,711	343,149	1,114,004	94,045	1,858,269	3,066,318	(89,763)	(17,532)	(107,295)	4,496,883	89,536	4,586,419
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	157,613	-	(157,613)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	13,250	(13,250)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(955,769)	(955,769)	-	-	-	(955,769)	(7,678)	(963,447)
Changes in equity of associates and joint ventures accounted for using equity method	-	2,485	-	-	-	-	-	-	-	2,485	-	2,485
Net income	-	-	-	-	723,133	723,133	-	-	-	723,133	3,487	726,620
Other comprehensive income	-	-	-	-	6	6	(20,583)	733	(19,850)	(19,844)	(2,088)	(21,932)
Total comprehensive income	-	-	-	-	723,139	723,139	(20,583)	733	(19,850)	703,289	1,399	704,688
Balance at December 31, 2019	\$ <u>1,194,711</u>	<u>345,634</u>	<u>1,271,617</u>	<u>107,295</u>	<u>1,454,776</u>	<u>2,833,688</u>	<u>(110,346)</u>	<u>(16,799)</u>	<u>(127,145)</u>	<u>4,246,888</u>	<u>83,257</u>	<u>4,330,145</u>

See accompanying notes to consolidated financial statements.

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

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Net income before tax	\$ 897,744	1,856,970
Adjustments:		
Adjustments to reconcile profit and loss		
Depreciation expense	149,781	88,719
Expected credit loss for bad debt expense	829	2,353
Interest expenses	30,220	18,369
Interest income	(5,139)	(2,910)
Dividend income	(158)	(201)
Share of profit of associates accounted for under equity method	(25,586)	(56,125)
Losses on disposal of property, plant and equipment	114	203
Property, plant and equipment transferred to expenses	353	773
Gains on disposal of investments accounted for using equity method	-	(945,838)
Total adjustments to reconcile profit and loss	<u>150,414</u>	<u>(894,657)</u>
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Financial assets at fair value through profit or loss	(173,071)	(437,188)
Notes receivable	(534)	647
Notes receivable—related parties	-	7,586
Accounts receivable	100,425	(21,930)
Other receivable	89,566	(90,150)
Inventories	73,773	(242,771)
Prepayments	(13,006)	1,169
Other current assets	(2,318)	(221)
Total changes in operating assets, net	<u>74,835</u>	<u>(782,858)</u>
Net changes in operating liabilities:		
Financial liabilities held for trading	(878)	(200)
Notes payable	(415)	278
Accounts payable	(92,670)	5,008
Other payable	(99,238)	115,184
Provisions	2,130	2,826
Other current liabilities	1,744	33,394
Net defined benefit liabilities	(2,701)	(7,574)
Other non-current liabilities	942	3,776
Total changes in operating liabilities, net	<u>(191,086)</u>	<u>152,692</u>
Total changes in operating assets / liabilities, net	<u>(116,251)</u>	<u>(630,166)</u>
Total adjustments	<u>34,163</u>	<u>(1,524,823)</u>
Cash provided by operating activities	931,907	332,147
Dividends received	18,946	42,047
Payment of income tax	(240,430)	(228,368)
Net cash provided by operating activities	<u>710,423</u>	<u>145,826</u>
Cash flows from investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	4,287
Proceeds from disposal of investments accounted for under equity method	560,978	460,509
Acquisition of property, plant and equipment	(102,231)	(56,391)
Proceeds from disposal of property, plant and equipment	1,166	828
Increase (decrease) in refundable deposits	2,451	(4,991)
Increase in other financial assets—non-current	(477)	(3,982)
Decrease (increase) in other non-current assets	(549)	3
Decrease (increase) in prepayments for equipment	(6,906)	8
Interest received	5,139	2,910
Net cash provided by investing activities	<u>459,571</u>	<u>403,181</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(50,441)	22,212
Proceeds from long-term debt	10,433	-
Repayment of long-term borrowings	(9,941)	(13,790)
Decrease in deposits received	(480)	(100)
Payment of lease liabilities	(59,933)	-
Cash dividends paid	(963,447)	(664,284)
Interest paid	(30,220)	(18,369)
Changes in non-controlling interests	-	(16,442)
Net cash used in financing activities	<u>(1,104,029)</u>	<u>(690,773)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(16,622)</u>	<u>(6,261)</u>
Increase (decrease) in cash and cash equivalents for the period	49,343	(148,027)
Cash and cash equivalents at beginning of period	692,377	840,404
Cash and cash equivalents at end of period	<u>\$ 741,720</u>	<u>692,377</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Organization and Business Scope

ATEN INTERNATIONAL CO., LTD. (the “Company”) was incorporated on July 6, 1979, under the laws of the Republic of China (ROC). The Company and its subsidiaries (the Group) are mainly engaged in the manufacturing and trading of computer peripheral equipment, manufacturing of wired and wireless communication equipment, and manufacturing of electronic modules and parts.

(2) Financial Statements Authorization Date and Authorization Process

These consolidated financial statements were approved by the Board of Directors and published on March 10, 2020.

(3) New Standards and Interpretations Not Yet Adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2019. The differences between the current version and the previous version are as follows:

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

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

- (i) IFRS 16 “Leases”

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

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

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

2) As a lessee

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

The Group decided to apply the recognition exemptions to the short-term leases of its buildings and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize the right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) Impacts on financial statements

On transition to IFRS 16, the Group both recognized the additional amounts of \$152,214 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.92%.

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ -
Extension and termination options reasonably certain to be exercised	155,280
	\$ 155,280
Discounted using the incremental borrowing rate at January 1, 2019	\$ 152,214
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	\$ 152,214

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) The impact of IFRS endorsed by FSC that will soon take effect

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

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

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

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

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

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

The Group assessed that the above IFRSs may not be relevant to the Group.

(4) Significant Accounting Policies

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for notes 3 and 4(k), the following accounting policies have been applied consistently throughout the presented periods in the financial statement.

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on a historical cost basis, unless otherwise stated (Refer to the summary of the significant accounting policies).

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is Company's functional currency. The assets and liabilities of foreign operations are translated to the Group's functional currency using the exchange rates on reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

(ii) List of subsidiaries included in the consolidated financial statements

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Scope of business</u>	<u>Percentage of ownership</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
The Company	TOPMOST INTERNATIONAL CO., LTD. (TOPMOST)	Investing	100 %	100 %
The Company	ATEN JAPAN CO., LTD. (ATEN JAPAN)	Trading of computer peripheral products	100 %	100 %
The Company	ATEN US HOLDINGS INC. (ATEN US)	Investing	100 %	100 %
The Company	FOREMOST INTERNATIONAL CO., LTD. (FOREMOST)	Investing	100 %	100 %
The Company	ATEN INFOTECH N.V. (ATEN INFOTECH)	Trading of computer peripheral products	100 %	100 %
The Company	ATECH PERIPHERALS INC. (ATECH PERIPHERALS)	Trading of computer peripheral products	100 %	100 %
The Company	ATEN RESEARCH INC. (ATEN RESEARCH)	Trading of computer peripheral products	95 %	95 %

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Scope of business</u>	<u>Percentage of ownership</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
The Company	ATEN COMPUTER PRODUCTS CO., LTD. (ATEN COMPUTER)	Trading of computer peripheral products	100 %	100 %
The Company	VISIONTOP CO., LTD. (VISIONTOP)	Specialized printing	60 %	60 %
The Company	HONG JHENG TECHNOLOGY CO., LTD. (HONG JHENG)	Investing	100 %	100 %
The Company	HONG YUAN CO., LTD. (HONG YUAN)	Investing	100 %	100 %
The Company	ATEN ANZ PTY LTD. (ATEN ANZ)	Trading of computer peripheral products	100 %	100 %
The Company	RCM FULLY AUTOMATION CO., LTD. (RCM FULLY) (Note 1)	Trading of computer peripheral products	26 %	26 %
The Company	ATEN INFO COMMUNICAION LIMITED LIABILITY COMPANY (ATEN TURKEY)	Trading of computer peripheral products	100 %	100 %
The Company	ATEN POLAND SP Z.O. O. (ATEN POLAND)	Trading of computer peripheral products	100 %	100 %
The Company	ATEN ROMANIA S.R.L. (ATEN ROMANIA) (Note2)	Trading of computer peripheral products	100 %	- %
TOPMOST	EXPAND INTERNATIONAL CO., LTD. (EXPAND)	Investing	100 %	100 %
TOPMOST	ATEN EUROPE LIMITED (ATEN EUROPE)	Investing	100 %	100 %
TOPMOST	I/O MASTER INC. (I/O MASTER)	Investing	100 %	100 %
FOREMOST	ATEN CHINA CO., LTD. (ATEN CHINA)	Trading of computer peripheral products	70 %	70 %
FOREMOST	ATEN FOREMOST INTERNATIONAL CO., LTD. (ATEN FOREMOST)	Manufacturing and trading of computer peripheral products	100 %	100 %
EXPAND	EXPAND ELECTRONIC CO., LTD. (EXPAND ELECTRONIC)	Manufacturing of computer peripheral products	100 %	100 %
ATEN EUROPE	ATEN UK LIMITED (ATEN UK)	Trading of computer peripheral products	100 %	100 %
ATEN EUROPE	ATEN KOREA CO., LTD. (ATEN KOREA)	Trading of computer peripheral products	85 %	85 %
ATEN US	ATEN TECHNOLOGY INC. (ATEN TECHNOLOGY)	Trading of computer peripheral products	97 %	97 %
ATEN US & ATEN TECHNOLOGY	ATEN NEW JERSEY INC. (ATEN NEW JERSEY)	Trading of computer peripheral products	98 %	98 %
I/O MASTER	ATEN CANADA TECHNOLOGIES INC. (ATEN CANADA)	Research and development	100 %	100 %
I/O MASTER	IOGEAR, INC.(IOGEAR)	Trading of computer peripheral products	100 %	100 %
A TECH PERIPHERALS	RCM FULLY AUTOMATION CO., LTD. (RCM FULLY)	Trading of computer peripheral products	74 %	74 %

Note 1: RCM FULLY AUTOMATION CO., LTD (change Chinese company name) has been changed registration in August 15, 2018.

Note 2: The subsidiary was established on April 5, 2019.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- (i) an investment in equity securities designated as at fair value through other comprehensive income;
- (ii) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- (iii) qualifying cash flow hedges to the extent that the hedges are effective.

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

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

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

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalent refers to short term investments with high liquidity that are subject to insignificant risk of changes in their fair value and can be cashed into fixed amount of money. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose should be recognized as cash equivalent.

(g) Financial instruments

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

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

1) Financial assets measured at amortized cost

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets).

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

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

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

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

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full.

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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

5) Derecognition of financial assets

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

(ii) Financial liabilities and equity instruments

1) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise borrowings, accounts payable, other payables and deposits received, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income and expense.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation expires or has been discharged or cancelled. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income and expense.

3) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Subsequent to initial recognition, inventories are measured at the lower of cost or net realizable value and the cost of inventories is based on the standard cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. The differences between standard and actual costing are fully classified as operating costs. When the cost of inventories is higher than the net realizable value, the inventories are written down to net realizable value, and the write down amount is charged to current year's cost of goods sold.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for under equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that in significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of its associates and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the changes in ownership interests of its associates in 'capital surplus' in proportion to its ownership interests.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

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

Land improvements	3 years
Buildings	2~61 years
Machinery equipment	3~10 years
Other equipment	1~12 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Leases

Applicable commencing January 1, 2019

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset—this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:

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

(ii) As a lessee

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

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

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

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

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

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

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

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

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

Applicable before January 1, 2019

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Lessee

Other leases are operating leases and are not recognized in the Group's balance sheets. Payments made under operating leases.

Operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets – Goodwill

(i) Recognition

Upon conversion to the IFRSs endorsed by the Financial Supervisory Commission, R.O.C., the Group can choose to restate all business combinations that occurred after January 1 2012 (inclusive). For those acquisitions that occurred prior to January 1 2012, any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets recognized at the date of acquisition is recognized as goodwill.

(ii) Measurement

Goodwill is measured at cost, less, accumulated impairment losses.

It is tested for impairment annually, or more frequently, when there is an indication that the cash generating unit may be impaired.

(m) Impairment – Non-derivative financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(o) Revenue

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

The Group is mainly engaged in the manufacture and trading of computer peripheral products. The Group recognizes revenue when control of the products has been transferred. When the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract and the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group often offers volume discounts to its customers based on aggregate sales of electronic components in the contractual period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The Group's obligation to provide a refund for faulty electronic components under the standard warranty terms is recognized as a provision for warranty; please refer to note 6(k).

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(p) Employee benefits

(i) Defined contribution plans

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(q) Income tax

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

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the below exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred income tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

(r) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

When computing diluted earnings per share, all potential share are considered outstanding shares for the current period; therefore, both profit attributable to ordinary shareholders and outstanding shares should be adjusted for the impact of potential shares. Employee bonuses in the form of stock of the Company are accounted for as potential shares.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Operating segments

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

(5) Significant Accounting Judgments and Sources of Estimation and Uncertainty

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

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

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows: :

(a) Judgment regarding significant influence of associates

The Group has less than 20% of the voting or potential voting rights in Aspeed Technology Inc. However, the Group has determined that it has significant influence over it because the Group has the authority to assign one of the eight directors on the board of Aspeed Technology Inc., and make decision regarding its financial and operating policies.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value.

(6) Description of Significant Accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 4,255	4,369
Saving deposits and foreign currency deposits	608,885	519,132
Checking deposits	19,306	15,027
Time deposits	<u>109,274</u>	<u>153,849</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u><u>\$ 741,720</u></u>	<u><u>692,377</u></u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss – current:		
Derivative instruments not used for hedging	\$ 3,267	572
Non-derivative financial assets	1,587,740	1,417,364
Total	\$ 1,591,007	1,417,936
	December 31, 2019	December 31, 2018
Financial liabilities held for trading – current:		
Derivative instruments not used for hedging	\$ 1,369	2,247

For the amount on disposal of financial assets and liabilities remeasured at fair value through profit or loss, please refer to note 6(s).

As of December 31, 2019 and 2018, the Group has not provided any aforementioned financial assets as collateral.

The Group uses derivative financial instruments to manage the exposures due to fluctuations of foreign exchange risk from its operating activities. The Group reported the following derivatives financial instruments as financial assets and liabilities at fair value through profit or loss without the application of hedge accounting were classified as mandatorily measured at fair value through profit or loss and held-for-trading financial instruments on December 31, 2019 and 2018 .

Mandatorily measured at fair value through profit or loss financial assets – Forward contract:

	Fair value	Currency	Contract amount
December 31, 2019			
Forward Contracts	\$ 291	JPY/TWD	161,000
Forward Contracts	\$ 137	GBP/TWD	120
Forward Contracts	\$ 410	EUR/TWD	2,795
Forward Contracts	\$ 2,097	USD/TWD	7,300
Forward Contracts	\$ 332	USD/CNY	1,350
December 31, 2018			
Forward Contracts	\$ 72	GBP/TWD	45
Forward Contracts	\$ 500	EUR/TWD	1,400

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Held-for-trading financial liabilities – Forward contract:

	<u>Fair value</u>	<u>Currency</u>	<u>Contract amount</u>
December 31, 2019			
Forward Contracts	\$ 170	JPY/TWD	75,000
Forward Contracts	\$ 17	USD/TWD	1,000
Forward Contracts	\$ 155	GBP/TWD	420
Forward Contracts	\$ 169	EUR/TWD	875
Forward Contracts	\$ 858	USD/KRW	1,900
December 31, 2018			
Forward Contracts	\$ 1,063	JPY/TWD	213,200
Forward Contracts	\$ 688	EUR/TWD	2,741
Forward Contracts	\$ 8	AUD/TWD	150
Forward Contracts	\$ 117	CNY/TWD	6,500
Forward Contracts	\$ 13	USD/TWD	500
Forward Contracts	\$ 358	USD/KRW	1,700

As for above mentioned, these financial instruments had maturity periods from January 3, 2020 to May 22, 2020 and January 4, 2019 to March 22, 2019, respectively.

For credit risk and market risk please refer to note 6(t).

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Equity investments at fair value through other comprehensive income:		
Listed stocks (domestic) – current	\$ <u>5,375</u>	<u>4,642</u>
Unlisted stocks (domestic) – non-current	\$ <u>21,780</u>	<u>21,780</u>

(i) Equity investments at fair value through other comprehensive income

The Group held equity instrument investment for long-term strategic purposes, not held for trading purposes, which have been designated as measured at fair value through other comprehensive income.

In August 2018, the Group disposed all of its shares in First Financial Holding Co., Ltd. due to operational considerations. The shares disposed had a fair value of \$4,287 thousand, and the gain on disposal of above transaction of \$75 thousand, recognized in other comprehensive income. The gain had been transferred to retained earnings.

(ii) For credit risk and market risk, please refer to note 6(t).

(iii) The Group did not hold any collateral for the collectible amounts.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Notes and accounts receivable and other receivables

	December 31, 2019	December 31, 2018
Notes receivable	\$ 8,467	7,933
Accounts receivable, net	622,994	723,419
Less: allowance for impairment	<u>3,042</u>	<u>2,310</u>
	<u>\$ 628,419</u>	<u>729,042</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected credit loss provision for all receivables on December 31, 2019. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward-looking information, including macroeconomic and relevant industry information. The expected credit losses as of was determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted- average expected credit loss rate	Loss allowance provision
Current	\$ 582,911	0%	-
0 to 30 days past due	37,847	0%	-
31 to 60 days past due	556	0%	-
61 to 90 days past due	254	0%	-
91 to 120 days past due	86	1%	-
121 to 180 days past due	170	30%	-
181 to 360 days past due	1,087	70%	-
Past due 360 days	<u>8,550</u>	100%	<u>3,042</u>
	<u>\$ 631,461</u>		<u>3,042</u>
	December 31, 2018		
	Gross carrying amount	Weighted- average expected credit loss rate	Loss allowance provision
Current	\$ 646,763	0%	-
0 to 30 days past due	66,246	0%	-
31 to 60 days past due	2,232	0%	-
61 to 90 days past due	3,092	0%	-
91 to 120 days past due	330	0%	-
Past due over 121 days	<u>12,689</u>	20%~30%	<u>2,310</u>
	<u>\$ 731,352</u>		<u>2,310</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>2019</u>	<u>2018</u>
Balance on January 1	\$ 2,310	4,977
Impairment losses recognized (reversed)	829	2,353
Foreign exchange gain (loss) and others	<u>(97)</u>	<u>(5,020)</u>
Balance on December 31	<u><u>\$ 3,042</u></u>	<u><u>2,310</u></u>

As of December 31, 2019 and 2018, the bank has priority claim over the Group's accounts receivable amounting to \$147,299 thousand and \$191,640 thousand, respectively.

(e) Other receivables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other receivables	\$ 4,125	654,669
Less: allowance for doubtful debts	<u>1,000</u>	<u>1,000</u>
	<u><u>\$ 3,125</u></u>	<u><u>653,669</u></u>

As of December 31, 2019 and 2018, the Group had no other receivable that were past due but not impaired.

On December 31, 2018, the Group had receivables to dispose of securities were \$90,000 thousand and the receivables for disposal of investment under the equity method were \$560,978 thousand, it was fully collected between January 1, 2019 to March 31, 2019.

(f) Inventories

The components of the Group's inventories were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Finished goods	\$ 615,413	644,467
Work in process	131,350	131,133
Raw material	<u>238,485</u>	<u>282,480</u>
	<u><u>\$ 985,248</u></u>	<u><u>1,058,080</u></u>

Due to the decrease in the net realizable value of inventories, the Group recognized the inventory pricing loss as cost of goods sold. The amounts are as follows:

	<u>2019</u>	<u>2018</u>
Losses (gains) on decline in market value of in inventory	\$ 3,727	(377)
Losses (gains) on physical inventory, net	1,328	(241)
Losses on scrapping of inventory	<u>11,248</u>	<u>10,134</u>
Total	<u><u>\$ 16,303</u></u>	<u><u>9,516</u></u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018, the bank has priority claim over the Group's inventories amounting to \$339,579 thousand and \$369,286 thousand, respectively.

(g) Investments accounted for under equity method

The Group's investments in associate entities accounted for under equity method, which are not individually significant, were as follows. Such financial information is included in the consolidated financial statements of the Group.

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Book value of investments in not individually significant associate entities accounted for under equity method	<u>\$ 84,809</u>	<u>75,559</u>
	<u>2019</u>	<u>2018</u>
Attributable to the Group:		
Income from continued operation	\$ 25,586	56,125
Other comprehensive income	<u>(33)</u>	<u>(113)</u>
Total comprehensive income	<u>\$ 25,553</u>	<u>56,012</u>

The Group disposed 5.14% of Aspeed Technology Inc.'s equity ownership in September 2018 without losing its significant influence. The price, less, associated costs amounted to \$1,021,487 thousand, and a gain of \$945,838 thousand was recognized under other comprehensive income and presented in other gains and losses. The gain from disposal includes the loss previously recognized in other comprehensive income related to the associate and the amount which is reclassified to profit or loss from paid-in-capital. As of December 31, 2019, the uncollected proceeds related to the above transaction was \$560,978 thousand, recorded under other receivables.

As of December 31, 2019 and 2018, the fair value of the investment in associate entity amounted to \$1,000,975 thousand and \$613,737 thousand, respectively.

As of December 31, 2019 and 2018, the Group has not been provided as pledge under the equity method.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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(h) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group were as follows:

	<u>Land</u>	<u>Land improvements</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Prepayments for equipment and testing equipment</u>	<u>Total</u>
Cost or deemed cost:							
Balance at January 1, 2019	\$ 1,326,176	7,418	793,338	169,125	330,317	1,492	2,627,866
Additions	8,045	132	13,440	15,958	40,562	24,094	102,231
Disposals	-	-	(29,928)	(1,615)	(18,454)	-	(49,997)
Reclassification	-	-	297	-	2,867	(3,474)	(310)
Effect of changes in exchange rates	(1,738)	(12)	(7,375)	(1,700)	(5,139)	-	(15,964)
Balance at December 31, 2019	<u>\$ 1,332,483</u>	<u>7,538</u>	<u>769,772</u>	<u>181,768</u>	<u>350,153</u>	<u>22,112</u>	<u>2,663,826</u>
Balance at January 1, 2018	\$ 1,323,166	7,300	787,994	184,677	319,495	2,808	2,625,440
Additions	-	-	5,047	1,664	47,758	1,922	56,391
Disposals	-	-	(662)	(15,627)	(39,405)	-	(55,694)
Reclassification	-	-	177	-	3,018	(3,238)	(43)
Effect of changes in exchange rates	3,010	118	782	(1,589)	(549)	-	1,772
Balance at December 31, 2018	<u>\$ 1,326,176</u>	<u>7,418</u>	<u>793,338</u>	<u>169,125</u>	<u>330,317</u>	<u>1,492</u>	<u>2,627,866</u>
Depreciation and impairment loss:							
Balance at January 1, 2019	\$ -	5,890	289,472	129,196	208,849	-	633,407
Depreciation	-	190	23,452	17,357	45,842	-	86,841
Disposal	-	-	(29,927)	(1,598)	(17,192)	-	(48,717)
Reclassification	-	-	-	-	43	-	43
Effect of changes in exchange rates	-	(8)	(2,453)	(1,423)	(4,288)	-	(8,172)
Balance at December 31, 2019	<u>\$ -</u>	<u>6,072</u>	<u>280,544</u>	<u>143,532</u>	<u>233,254</u>	<u>-</u>	<u>663,402</u>
Balance at January 1, 2018	\$ -	5,697	265,420	125,841	203,603	-	600,561
Depreciation	-	154	24,634	20,145	43,786	-	88,719
Disposal	-	-	(662)	(15,605)	(38,396)	-	(54,663)
Effect of changes in exchange rates	-	39	80	(1,185)	(144)	-	(1,210)
Balance at December 31, 2018	<u>\$ -</u>	<u>5,890</u>	<u>289,472</u>	<u>129,196</u>	<u>208,849</u>	<u>-</u>	<u>633,407</u>
Carrying value:							
December 31, 2019	<u>\$ 1,332,483</u>	<u>1,466</u>	<u>489,228</u>	<u>38,236</u>	<u>116,899</u>	<u>22,112</u>	<u>2,000,424</u>
December 31, 2018	<u>\$ 1,326,176</u>	<u>1,528</u>	<u>503,866</u>	<u>39,929</u>	<u>121,468</u>	<u>1,492</u>	<u>1,994,459</u>
January 1, 2018	<u>\$ 1,323,166</u>	<u>1,603</u>	<u>522,574</u>	<u>58,836</u>	<u>115,892</u>	<u>2,808</u>	<u>2,024,879</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the bank has priority claim over the Group's property, plant and equipment amounting to \$16,770 thousand and \$12,284 thousand, respectively.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Right-of-use assets

The Group leases its assets including its land, buildings, transportation equipment and other equipment. Information about leases, for which the Group is the lessee, is presented below:

	<u>Land and buildings</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>eTotal</u>
Cost:				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	144,281	5,079	2,854	152,214
Balance at January 1, 2019	144,281	5,079	2,854	152,214
Additions	55,214	1,295	-	56,509
Effect of changes in foreign exchange rates	(3,565)	(77)	(31)	(3,673)
Balance at December 31, 2019	<u>\$ 195,930</u>	<u>6,297</u>	<u>2,823</u>	<u>205,050</u>
Accumulated depreciation and impairment losses:				
Balance at January 1, 2019	\$ -	-	-	-
Depreciation	60,407	1,761	772	62,940
Effect of changes in exchange rates	(1,604)	(25)	(12)	(1,641)
Balance at December 31, 2019	<u>\$ 58,803</u>	<u>1,736</u>	<u>760</u>	<u>61,299</u>
Carrying value:				
December 31, 2019	<u>\$ 137,127</u>	<u>4,561</u>	<u>2,063</u>	<u>143,751</u>

(j) Short-term and long-term borrowings

The details, terms and clauses of the Group's short-term and long-term borrowings were as follows:

(i) Short-term borrowings

	<u>December 31, 2019</u>			
	<u>Currency</u>	<u>Interest rate (%)</u>	<u>Maturity year</u>	
Secured loans	USD	3.50~4.00	2020	\$ 180,636
Secured loans	KRW	1.84	2020	49,554
Unsecured loans	USD	1.94~3.792	2020	237,616
Unsecured loans	AUD	1.88~2.08	2020	2,744
Unsecured loans	EUR	0.45~0.90	2020	80,532
Unsecured loans	GBP	1.91725	2020	15,807
Unsecured loans	JPY	1.71727	2020	48,475
Unsecured loans	CNY	3.5941~4.95	2020	91,102
Total				<u>\$ 706,466</u>

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018			Amount
	Currency	Interest rate (%)	Maturity year	
Secured loans	TWD	1.45	2019	\$ 1,000
Secured loans	USD	4.2~4.32	2019	190,545
Secured loans	KRW	2.86	2019	38,441
Unsecured loans	USD	2.62~4.1653	2019	332,979
Unsecured loans	EUR	0.9	2019	54,591
Unsecured loans	JPY	1.7123	2019	43,137
Unsecured loans	GBP	1.40~1.93	2019	36,372
Unsecured loans	CNY	3.09~5.22	2019	55,940
Unsecured loans	AUD	2.61~2.98	2019	<u>3,902</u>
Total				<u>\$ 756,907</u>

As of December 31, 2019, and 2018, the unused credit facilities of the Group's short-term borrowings amounted to \$1,464,409 thousand and \$1,427,152 thousand, respectively.

(ii) Long-term borrowings

	December 31, 2019			Amount
	Currency	Interest rate (%)	Maturity year	
Secured loans	EUR	1.976	2023	\$ 21,589
Secured loans	KRW	2.72	2022	10,433
Secured loans	JPY	2.13	2020	<u>3,425</u>
Total				<u>\$ 35,447</u>
Current				\$ 8,822
Non-current				<u>26,625</u>
Total				<u>\$ 35,447</u>

	December 31, 2018			Amount
	Currency	Interest rate (%)	Maturity year	
Secured loans	EUR	1.976	2023	\$ 28,177
Secured loans	JPY	2.13	2020	<u>8,006</u>
Total				<u>\$ 36,183</u>
Current				\$ 10,200
Non-current				<u>25,983</u>
Total				<u>\$ 36,183</u>

For the risk information of the Group interest rate, foreign currency and liquidity risk, please refer to note 6(t).

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Collateral of loans

The Group has mortgaged their assets as collateral of loans. Please refer to note 8.

(k) Provisions

	<u>Warranties</u>
Balance as of January 1, 2019	\$ 22,660
Provisions made during the year	28,493
Provisions used during the year	<u>(26,363)</u>
Balance as of December 31, 2019	<u>\$ 24,790</u>
Balance as of January 1, 2018	\$ 19,834
Provisions made during the year	28,096
Provisions used during the year	<u>(25,270)</u>
Balance as of December 31, 2018	<u>\$ 22,660</u>

In 2019 and 2018, provisions are mainly associated with the Group's business products, and are estimated based on the historical data and weighted average of all possibility of similar merchandises and services. Most of the warranty claims are expected to arise in the following year of the sale

(l) Lease liabilities

The Group's lease liabilities were as follow:

	<u>December 31,</u> <u>2019</u>
Current	\$ <u>55,285</u>
Non-current	\$ <u>91,742</u>

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

The amounts recognized in profit or loss were as follows:

	<u>2019</u>
Interest on lease liabilities	\$ <u>6,086</u>
Expenses relating to short-term leases	\$ <u>43,609</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>436</u>

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

	<u>2019</u>
Total cash outflow for leases	\$ <u>110,064</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Employee benefits

(i) Defined benefit plans

The Group determined the movement in the present value of the defined benefit obligations and fair value of plan assets as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of the defined benefit obligations	\$ 203,736	208,059
Fair value of plan assets	<u>(107,367)</u>	<u>(109,082)</u>
The net defined benefit liability	<u><u>\$ 96,369</u></u>	<u><u>98,977</u></u>

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on the employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, 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 interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$107,367 thousand (including pension payables in transit of \$3,145 thousand) at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Group were as follows:

	<u>2019</u>	<u>2018</u>
Defined benefit obligation at 1 January	\$ 208,059	209,051
Current service costs and interest	3,893	4,584
Remeasurements of the net defined benefit liability		
– Return on plan assets (excluding amounts included in net interest expense)	3,240	2,566
– Due to changes in financial assumption of actuarial (losses) gains	360	74
Benefits paid by the plan	<u>(11,816)</u>	<u>(8,216)</u>
Defined benefit obligation at 31 December	<u><u>\$ 203,736</u></u>	<u><u>208,059</u></u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movement of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets, January 1	\$ 109,082	101,920
Interest revenue	1,292	1,406
Remeasurements of the net defined benefit liability		
– Return on plan assets (excluding amounts included in net interest expense)	3,505	3,322
Contributions made	5,304	10,650
Benefits paid by the plan	<u>(11,816)</u>	<u>(8,216)</u>
Fair value of plan assets, December 31	<u><u>\$ 107,367</u></u>	<u><u>109,082</u></u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	<u>2019</u>	<u>2018</u>
Current service cost	\$ 1,338	1,672
Net interest on the defined benefit liability	<u>1,263</u>	<u>1,506</u>
	<u><u>\$ 2,601</u></u>	<u><u>3,178</u></u>
	<u>2019</u>	<u>2018</u>
Operating costs	\$ 845	1,102
Selling expenses	622	723
Administration expenses	855	1,006
Research and development expenses	<u>279</u>	<u>347</u>
	<u><u>\$ 2,601</u></u>	<u><u>3,178</u></u>

5) Remeasurement in the net defined benefit liability recognized in other comprehensive income

The Group's Remeasurement in the net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Cumulative amount, January 1	\$ (44,617)	(45,299)
Recognized during the period	<u>(95)</u>	<u>681</u>
Cumulative amount, December 31	<u><u>\$ (44,712)</u></u>	<u><u>(44,618)</u></u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Actuarial assumptions

The following are the Group's principal actuarial assumptions at the reporting dates:

	<u>2019.12.31</u>	<u>2018.12.31</u>
Discount rate	1.00%~1.20%	1.00%~1.20%
Future salary increases rate	2.50%~3.00%	2.50%~3.00%

The Group expects to make contributions of \$2,324 thousand to the defined benefit plans in the next year starting from the reporting date of 2019.

The weighted average duration of the defined benefit obligation is 13.2~13.3 years.

7) Sensitivity analysis

When calculating the present value of the defined benefit obligation, the Company uses judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligation.

As of December 31, 2019 and 2018, the present value of defined benefit obligation impact was as follow:

	The impact of defined benefit obligation	
	<u>Increase</u>	<u>Decrease</u>
December 31, 2019		
Discount rate (0.25%)	\$ (3,495)	3,647
Future salary increase rate (1.00%)	15,160	(13,096)
December 31, 2018		
Discount rate (0.25%)	(3,746)	3,914
Future salary increase rate (1.00%)	16,357	(14,032)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labour pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's pension costs under the defined contribution method were \$52,213 thousand and \$47,001 thousand for 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

(iii) Short-term employee benefit liabilities

	December 31, 2019	December 31, 2018
Compensated absence liabilities (recorded under other payable)	<u><u>\$ 44,417</u></u>	<u><u>43,083</u></u>

(n) Income tax

(i) Income tax expenses

The amount of income tax for 2019 and 2018 were as follows:

	2019	2018
Current tax expense		
Current period	\$ 247,058	249,736
Adjustment for prior periods	<u>1,108</u>	<u>(2,569)</u>
	<u>248,166</u>	<u>247,167</u>
Deferred income tax expense		
Origination and reversal of temporary differences	(77,042)	4,550
Effect of tax rate changes	<u>-</u>	<u>17,502</u>
	<u>(77,042)</u>	<u>22,052</u>
Income tax expense from continuing operations	<u><u>\$ 171,124</u></u>	<u><u>269,219</u></u>

The amounts of income tax recognized in other comprehensive income for 2019 and 2018 were as follows:

	2019	2018
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	<u><u>\$ 2</u></u>	<u><u>(101)</u></u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>2019</u>	<u>2018</u>
Net income before tax	\$ <u>897,744</u>	<u>1,856,970</u>
Income tax using the Company's domestic tax rate	\$ 179,549	371,394
Effect of tax rates differences in foreign jurisdiction	26,960	27,667
Effect of tax rate changes	-	17,502
Adjustments according to tax law	(5,897)	(201,355)
Tax treaty rewards	(14,757)	(10,500)
Previous unrecognized tax losses	(720)	(327)
Current-year losses for which no deferred income tax asset was recognized	1,809	-
Underestimated (overestimated) of prior year's income tax	1,108	(2,569)
Underestimated of prior year's deferred income tax assets	(17,261)	(54)
5% surtax on undistributed earnings	21,494	-
Income basic tax	-	59,372
Others	<u>(21,161)</u>	<u>8,089</u>
Total	\$ <u>171,124</u>	<u>269,219</u>

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Deferred income tax assets that have not been recognized by the Group are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Tax losses	\$ <u>3,168</u>	<u>2,079</u>

Under the income tax rate, tax losses can be carried forward for ten years to offset taxable income after permitted by domestic tax authority. Deferred income tax assets have not been recognized in respect of these items because it is not probable that the future taxable profit will be available, against which, the Group can utilize the benefits therefrom.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2019, the amount of tax losses not yet recognized as deferred tax assets and their credit for the previous year is as follows:

<u>Year</u>	<u>Amount</u>	<u>Year of expiration</u>
2013	\$ 1,863	2023
2014	1,445	2024
2016	3,407	2026
2017	61	2027
2018	9,067	2028
	<u><u>\$ 15,843</u></u>	

2) Recognized deferred income tax assets and liabilities

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

Deferred income tax assets:

	<u>Defined benefit plans</u>	<u>Unrealized profit from sales</u>	<u>Loss carryforward</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2019	\$ 16,557	86,602	33,219	38,970	175,348
Recognized in profit or loss	(486)	(2,185)	19,562	14,936	31,827
Recognized in other comprehensive income	2	-	-	-	2
Balance at December 31, 2019	<u>\$ 16,073</u>	<u>84,417</u>	<u>52,781</u>	<u>53,906</u>	<u>207,177</u>
Balance at January 1, 2018	\$ 16,482	72,322	-	60,863	149,667
Recognized in profit or loss	176	14,280	-	11,326	25,782
Recognized in other comprehensive income	(101)	-	-	-	(101)
Balance at December 31, 2018	<u>\$ 16,557</u>	<u>86,602</u>	<u>-</u>	<u>72,189</u>	<u>175,348</u>

Deferred income tax liabilities

	<u>Foreign investment income accounted for using equity method</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2019	\$ 167,058	53,074	220,132
Recognized in profit or loss	(52,524)	7,309	(45,215)
Balance at December 31, 2019	<u>\$ 114,534</u>	<u>60,383</u>	<u>174,917</u>
Balance at January 1, 2018	\$ 133,367	38,931	172,298
Recognized in profit or loss	33,691	14,143	47,834
Balance at December 31, 2018	<u>\$ 167,058</u>	<u>53,074</u>	<u>220,132</u>

(iii) Examination and Approval

The tax returns of the Company's, Atech peripherals' and Visiontop's have been examined by the tax authorities through 2017.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Capital and other equity

(i) Common stock

As of December 31, 2019 and 2018, the total value of nominal ordinary shares amounted to \$1,500,000, face value of each share is \$10, of which 150,000 thousand shares, 119,471 thousand shares were issued. All issued shares were paid up upon issuance.

(ii) Additional paid-in capital

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

The Company's articles of incorporation require that the Company's net earnings from the current year shall be used to offset prior years' deficits, pay income tax, provide 10% as legal reserve, provide or reverse a special reserve in accordance with Section 41 of the Securities. After the abovementioned appropriations, the distribution of the remaining earnings, if any, should be proposed by the board of directors and is subject to the stockholders' approval.

The Company's business cycle is in the constant growth stage. In consideration of the Company's future capital requirements, its long term financial plan and shareholders' satisfaction as to cash inflow, the Company's articles of incorporation stipulate that the board of directors may propose 30% or more of the distributable earnings as dividends, of which at least 10% should be distributed as cash dividends. However, such distribution depends on the current earnings and the capital condition, and is subject to the approval of stockholders.

1) Legal reserve

In accordance with the Company Act, 10% of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

2) Special reserve

In accordance with Ruling No.1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

Earnings distribution for 2018 and 2017 was decided via the general meeting of shareholders held on June 14, 2019 and 2018, respectively. The relevant dividend distributions to shareholders were as follows:

	2018		2017	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 8.00	<u>955,769</u>	5.50	<u>657,091</u>

On March 10, 2020, the Company's Board of Directors resolved to appropriate the 2019 earnings. These earnings were appropriated as follows:

	2019	
	Amount per share (NT dollars)	Total amount
Dividends distributed to common shareholders:		
Cash	\$ 5.30	<u>633,197</u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Non-controlling interests	Total
Balance as of January 1, 2019	\$ (89,763)	(17,532)	(1,778)	(109,073)
Foreign exchange differences arising from foreign operations	(20,550)	-	(1,989)	(22,539)
Exchange differences on translation financial statements of foreign subsidiaries accounted for using equity method	(33)	-	-	(33)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	733	-	733
Balance as of December 31, 2019	<u>\$ (110,346)</u>	<u>(16,799)</u>	<u>(3,767)</u>	<u>(130,912)</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Foreign exchange differences arising from foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Non-controlling interests	Total
Balance as of January 1, 2018	\$ (92,885)	(17,660)	(1,344)	(111,889)
Foreign exchange differences arising from foreign operations	3,170	-	(434)	2,736
Exchange differences on translation financial statements of foreign subsidiaries accounted for using equity method	(48)	-	-	(48)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	268	-	268
Disposal of investments in equity instruments designed at fair value through other comprehensive income	-	(75)	-	(75)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income, associates accounted for using equity method	-	(65)	-	(65)
Balance as of December 31, 2018	<u>\$ (89,763)</u>	<u>(17,532)</u>	<u>(1,778)</u>	<u>(109,073)</u>

(p) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share for years ended December 31, 2019 and 2018 was as follows:

(i) Basic earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company	<u>\$ 723,133</u>	<u>1,576,132</u>
Weighted-average number of ordinary shares	<u>119,471</u>	<u>119,471</u>
Basic earnings per share (in NT dollars)	<u>\$ 6.05</u>	<u>13.19</u>

(ii) Diluted earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company	<u>\$ 723,133</u>	<u>1,576,132</u>
Weighted-average number of ordinary shares (basic)	119,471	119,471
Impact of potential common shares		
Effect of employee stock bonus	<u>2,009</u>	<u>2,540</u>
Weighted-average number of ordinary shares (diluted)	<u>121,480</u>	<u>122,011</u>
Diluted earnings per share (in NT dollars)	<u>\$ 5.95</u>	<u>12.92</u>

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Revenue from contracts with customers – disaggregation of revenue

	2019		
	Computer peripheral products	Other	Total
Primary geographical markets:			
United States	\$ 1,023,203	-	1,023,203
China	543,523	-	543,523
Japan	662,769	-	662,769
Others	2,660,185	143,039	2,803,224
	<u>\$ 4,889,680</u>	<u>143,039</u>	<u>5,032,719</u>
Major product lines:			
IT infrastructure management solutions	\$ 3,174,828	-	3,174,828
Video products	942,642	-	942,642
Others	772,210	143,039	915,249
	<u>\$ 4,889,680</u>	<u>143,039</u>	<u>5,032,719</u>
	2018		
	Computer peripheral products	Other	Total
Primary geographical markets:			
United States	\$ 1,213,235	-	1,213,235
China	533,087	-	533,087
Japan	568,931	-	568,931
Others	2,724,215	133,542	2,857,757
	<u>\$ 5,039,468</u>	<u>133,542</u>	<u>5,173,010</u>
Major product lines:			
IT infrastructure management solutions	\$ 3,146,094	-	3,146,094
Video products	1,004,650	-	1,004,650
Others	888,724	133,542	1,022,266
	<u>\$ 5,039,468</u>	<u>133,542</u>	<u>5,173,010</u>

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Remuneration to employees, directors and supervisors

In accordance with the Company's articles, the net income before tax, after deducting the remuneration to employees, directors and supervisors, shall first be offset against any deficit, then 10%~16% will be distributed as employee remuneration and less than 2% will be allocated as directors' and supervisors' remuneration. The amounts of employee, directors' and supervisors' remuneration, to be distributed in cash or stock, should be decided in the board meeting, with two thirds of the board members attending the meeting, and over half of the attendees approving the amounts for distribution that are to be reported at the shareholders meeting. Employees who are entitled to receive the above-mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Group who meet certain specific requirement.

For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to \$139,498 thousand and \$194,940 thousand, and directors' and supervisors' remuneration amounting to \$12,400 thousands and \$23,393 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2019 and 2018. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2019 and 2018.

(s) Non-operating income and expenses

(i) Other income

	<u>2019</u>	<u>2018</u>
Interest income	\$ 5,139	2,910
Dividend income	158	201
Other income — Other		
Compensation income	71,157	-
Business tax refund income	21,323	-
Other income	<u>22,855</u>	<u>27,060</u>
Total Other income — Other	<u>115,335</u>	<u>27,060</u>
Total other income	<u>\$ 120,632</u>	<u>30,171</u>

(ii) Other gains and losses

	<u>2019</u>	<u>2018</u>
Losses on disposal of property, plant and equipment	\$ (114)	(203)
Gains on disposals of investment	-	945,838
Gains (losses) on foreign exchange	(10,527)	14,575
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	16,265	(849)
Others gains and losses	<u>(212)</u>	<u>(432)</u>
Net other gains and losses	<u>\$ 5,412</u>	<u>958,929</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Finance costs

	2019	2018
Interest expense	<u><u>\$ 30,220</u></u>	<u><u>18,369</u></u>

(t) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2019 and 2018, the maximum amount exposed to credit risk amounted to \$3,126,392 thousand and \$3,656,386 thousand, respectively.

2) Concentration of credit risk

The Group did not have significant transaction with any individual customer in 2019 and 2018.

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	2-3 years	3-5 years	Over 5 years
December 31, 2019							
Non-derivative financial liabilities							
Secured loans	\$ 265,637	272,823	245,170	5,960	5,804	15,889	-
Unsecured loans	476,276	477,728	477,728	-	-	-	-
Notes and accounts payable (including related parties)	381,359	381,359	381,359	-	-	-	-
Other payables	119,751	119,751	119,751	-	-	-	-
Deposits received	1,115	1,115	1,115	-	-	-	-
	147,027	156,493	59,667	36,194	33,245	25,699	1,688
Derivative financial liabilities							
Other forward contracts:							
Outflow	1,369	1,369	1,369	-	-	-	-
	<u><u>\$ 1,392,534</u></u>	<u><u>1,410,638</u></u>	<u><u>1,286,159</u></u>	<u><u>42,154</u></u>	<u><u>39,049</u></u>	<u><u>41,588</u></u>	<u><u>1,688</u></u>
December 31, 2018							
Non-derivative financial liabilities							
Secured loans	\$ 266,169	234,452	207,080	9,695	6,058	11,619	-
Unsecured loans	526,921	536,043	536,043	-	-	-	-
Notes and accounts payable (including related parties)	474,444	474,444	474,444	-	-	-	-
Other payables	120,087	120,087	120,087	-	-	-	-
Deposits received	1,595	1,595	1,595	-	-	-	-
Derivative financial liabilities							
Other forward contracts:							
Outflow	2,247	2,247	2,247	-	-	-	-
	<u><u>\$ 1,391,463</u></u>	<u><u>1,368,868</u></u>	<u><u>1,341,496</u></u>	<u><u>9,695</u></u>	<u><u>6,058</u></u>	<u><u>11,619</u></u>	<u><u>-</u></u>

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Exchange rate risk

1) Exposure to exchange rate risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
December 31, 2019			
Financial assets:			
Monetary items:			
USD	\$ 27,499	30.1060	827,885
JPY	244,900	0.2770	67,837
CNY	24,461	4.3233	105,752
EUR	4,100	33.7308	138,296
GBP	601	39.5171	23,750
Financial liabilities:			
Monetary items:			
USD	\$ 13,981	30.1060	420,912
CNY	24,490	4.3233	105,878
December 31, 2018			
Financial assets:			
Monetary items:			
USD	\$ 21,229	30.7330	652,431
JPY	234,538	0.2783	65,272
CNY	17,571	4.4752	78,634
EUR	4,852	35.2200	170,887
TWD	190,203	1.0000	190,203
GBP	621	38.9000	24,157
Financial liabilities:			
Monetary items:			
USD	\$ 16,341	30.7330	502,208
CNY	9,017	4.4752	40,353
GBP	535	38.9000	20,812

Note: Since the effect of foreign exchange risk derived from the transactions within the Group cannot be fully extinguished, analysis is based on the amounts prior to the write-off adjustments.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables that are denominated in foreign currency. A 1% appreciation or depreciation of the TWD against the USD, JPY, CNY, EUR, GBP and TWD as of December 31, 2019 and 2018 would have increased or decreased the net profit by \$6,367 thousand and \$6,182 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group books its transaction in different functional currencies, the information on foreign exchange gains (loss) on monetary items is disclosed based on the total amount. For the years 2019 and 2018, foreign exchange gains (including realized and unrealized portion) amounted to \$(10,527) thousand and \$14,575 thousand, respectively

(iv) Interest rate analysis

Please refer to the note for liquidity risk management and the interest rate exposure to the Group's financial assets and liabilities.

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

With all other variable factors remain constant. If the interest rate increases or decreases by 1%, the Group's net income will increase or decrease by \$7,419 thousand and \$7,931 thousand, respectively, for the years ended December 31, 2019, and 2018. This is mainly due from the Group's borrowing on variable rates.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Fair value and carrying amount

1) Categories and fair value of financial instruments

Except for the followings, carrying amount of the Group's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the Regulations.

	December 31, 2019				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 3,267	-	3,267	-	3,267
Non derivative financial assets mandatorily measured at fair value through profit or loss	1,587,740	1,587,740	-	-	1,587,740
Subtotal	<u>1,591,007</u>	<u>1,587,740</u>	<u>3,267</u>	<u>-</u>	<u>1,591,007</u>
Financial assets at fair value through other comprehensive income					
Listed stocks (domestic)	5,375	5,375	-	-	5,375
Unlisted stocks (domestic and overseas)	21,780	-	-	21,780	21,780
Subtotal	<u>27,155</u>	<u>5,375</u>	<u>-</u>	<u>21,780</u>	<u>27,155</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	741,720	-	-	-	-
Accounts and notes receivables	628,419	-	-	-	-
Other receivables	3,125	-	-	-	-
Refundable deposits	17,800	-	-	-	-
Other financial assets non-current	117,166	-	-	-	-
Subtotal	<u>1,508,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,126,392</u>	<u>1,593,115</u>	<u>3,267</u>	<u>21,780</u>	<u>1,618,162</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ (1,369)	-	(1,369)	-	(1,369)
Financial liabilities measured at amortized cost					
Short-term borrowings	(706,466)	-	-	-	-
Notes and accounts payable (including related parties)	(381,359)	-	-	-	-
Other payables	(119,751)	-	-	-	-
Long-term borrowings (including current portion)	(35,447)	-	-	-	-
Deposits received	(1,115)	-	-	-	-
Subtotal	<u>(1,391,165)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (1,392,534)</u>	<u>-</u>	<u>(1,369)</u>	<u>-</u>	<u>(1,369)</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 572	-	572	-	572
Non derivative financial assets mandatorily measured at fair value through profit or loss	1,417,364	1,417,364	-	-	1,417,364
Subtotal	<u>1,417,936</u>	<u>1,417,364</u>	<u>572</u>	<u>-</u>	<u>1,417,936</u>
Financial assets at fair value through other comprehensive income					
Listed stocks (domestic)	4,642	4,642	-	-	4,642
Unlisted stocks (domestic and overseas)	21,780	-	-	21,780	21,780
Subtotal	<u>26,422</u>	<u>4,642</u>	<u>-</u>	<u>21,780</u>	<u>26,422</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	692,377	-	-	-	-
Accounts and notes receivables	729,042	-	-	-	-
Other receivables	653,669	-	-	-	-
Refundable deposits	20,251	-	-	-	-
Other financial assets non-current	116,689	-	-	-	-
Subtotal	<u>2,212,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,656,386</u>	<u>1,422,006</u>	<u>572</u>	<u>21,780</u>	<u>1,444,358</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ (2,247)	-	(2,247)	-	(2,247)
Financial liabilities measured at amortized cost					
Short-term borrowings	(756,907)	-	-	-	-
Notes and accounts payable (including related parties)	(474,444)	-	-	-	-
Other payables	(120,087)	-	-	-	-
Long-term borrowings (including current portion)	(36,183)	-	-	-	-
Deposits received	(1,595)	-	-	-	-
Subtotal	<u>(1,389,216)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (1,391,463)</u>	<u>-</u>	<u>(2,247)</u>	<u>-</u>	<u>(2,247)</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Valuation techniques in financial instruments measured at fair value

a) Non – derivative financial instruments

If there are quoted prices in the active markets for financial instruments, the fair value of those prices may be based on the quoted market prices. The market prices announced by Securities Exchange and Over the Counter are the benchmarks of the fair value of equity instruments and Liability instruments trading in active markets.

The fair value of financial assets and liabilities traded in the active markets will be based on the quoted market prices when the quoted prices can be obtained from the exchanges, brokers, underwriters, industrial unions, pricing service agencies or authorities, as well as if they can represent as the one usually traded in fair market transaction in practice. If the requirements above mentioned don't actually accomplish, the market ought to be seen inactive condition. Generally speaking, the index of inactive market are based on the large difference of the price between buying and selling transaction, the difference of the price between buying and selling transaction distinctively increasing or little quantity of trading volume.

The fair values of the Group's financial instruments trading in active markets are categorized by types and nature as follows:

Stocks of listed Companies and open-ended funds are financial assets possessing standard provision and trading in active markets. Their fair values are determined based on the market quotes and net assets value, respectively.

In addition to the aforementioned financial instruments trading in active markets, the fair values of other financial instruments are obtained through valuation or by referencing the quotes from counterparties. Such valuation technique involves referencing the fair value of financial instruments that are virtually alike in terms and characteristic, and using discounted cash flow model or other pricing models. Other pricing models may utilize the available market information on the balance sheet date such as yield curve from Over the Counter and the average quotes on the interest rates of Reuters Commercial Paper.

b) Derivative financial instrument

Derivatives are priced based on the pricing models widely accepted by markets. Forward Exchange Contracts are normally priced based on the current forward exchange rates or the forward interest rate estimated using interest rate parity theory.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Fair value hierarchy

The Company used the fair value that can be observed in the market to measure the value of assets and liabilities. Fair values levels are based on the degree in which the fair value can be observed and grouped in to Levels 1 to 3 as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs, other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

There was no such situation that the Company reclassified the financial instruments from one level to another as of the reporting date.

4) Transfer from level 1 financial instrument to level 2 financial instrument.

There was no significant transfer from level 2 financial instrument to level 1 financial instrument.

5) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income	
	Unquoted equity instruments	Bond investments
Balance at December 31, 2019 (Balance at January 1, 2019)	<u>\$ 21,780</u>	<u>-</u>
Balance at December 31, 2018 (Balance at January 1, 2018)	<u>\$ 21,780</u>	<u>-</u>

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 6) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income equity investments without an active market	Comparative listed company	<ul style="list-style-type: none"> · Multipliers of price-Book ratios as of December 31, 2019 and 2018 were 1.24~1.99 and 1.52~2.05, respectively. · Market illiquidity discount rate as of December 31, 2019 and 2018 was both 20% 	<p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> · the multiplier were higher (higher) · the market illiquidity discount were higher (lower)

- 7) Fair value measurements in Level 3— sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

	<u>Input</u>	<u>Assumptions</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
December 31, 2019				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Liquidity discount at 20%	5%	\$ 1,255	(1,255)
December 31, 2018				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Liquidity discount at 20%	5%	1,248	(1,248)

The favorable and unfavorable effects represent the changes in fair value, and the fair value is based on a variety of unobservable inputs calculated using a valuation technique.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Financial risk management

(i) Overview

The Group is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note expresses the information on risk exposure and objectives, policies and process of risk measurement and management. For detailed information, please refer to the related notes to each risk.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors the risk which should be in compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board of Directors is assisted in its oversight role by the Internal Audit. The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer, financial institution, or counterparty fails to meet its contractual obligations and arises principally from the Group's receivables from its customers, financial instruments, or non-public trading securities.

1) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The counterparties of the Consolidated Companies' notes and accounts receivable are predominantly concentrated in Asia, which accounted for 51%, of the total amount of notes and accounts receivable as of December 31, 2019 and 2018.

The Group has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Board of Directors; these limits are reviewed regularly.

The Group has established an allowance for bad debt account to reflect the estimated losses for trade, other receivables, and investment. The allowance for bad debt account consists of specific losses relating to individually significant exposure and the unrecognized losses arising from similar assets groups. The allowance for bad debt account is based on the historical collection record of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transactions are with the counterparties, and the contractually obligated counterparties are the banks, financial institutions, corporate organizations and government agencies with good credits, there are no compliance issues, and therefore, there is no significant credit risk.

(iv) Liquidity risk

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group uses activity-based costing to estimate the cost of its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of the expected cash flows on financial liabilities (other than trade payables) over the succeeding 60 days. The Group also monitors the level of expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group has unused short-term bank facilities of \$1,464,409 thousand and \$1,427,152 thousand, respectively, as of December 31, 2019 and 2018.

(v) Market Risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group. The currencies used in these transactions are the EUR, USD, JPY, GBP, and CNY.

The Group holds accounts receivable denominated on the currency other than functional currency. Gains or losses on change of exchange rate and that on long-term and short-term borrowings denominated in foreign currency can offset each other, reducing the currency risk of the Group.

The interest is denominated in the currency used in the borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily the NTD, EUR, USD, JPY, GBP, and CNY.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

The Group's short-term borrowings are liabilities which are affected by the fluctuation of interest rates. Accordingly, changes in market rate would affect the effective interest rate and the future cash flow to alter.

3) Other market price risk

Financial assets at fair value through profit or loss—current and available-for-sale financial assets—current are listed stocks and mutual funds, which may fluctuate with changes in equity price. In order to manage market risk, the Group carefully selects trust companies with good reputations to engage in financial instrument transactions.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's bank balances and financial liability— short-term and long-term borrowings are exposed to the cash flow risk arising from changes in interest rates. However, the impact of the cash flow risk arising from changes in interest rate is not expected to be significant.

(v) Capital management

The Group's objectives for managing capital are to safeguard the capacity to continue to operate, to provide a return to shareholders and benefits to other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, or issue new shares to settle long-term liabilities.

The Group uses the debt ratio to manage capital. This ratio divides debt by total assets. The debt from the balance sheet is accounted for as total liabilities. Total assets include share capital, capital surplus, retained earnings, other equity and non-controlling interest, plus, debt; the Group may also use its equity ratio, computed as one, less, its debt ratio, as a basis in managing its capital.

The Group's debt and equity ratio at the end of the reporting date were as follow:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Total liabilities	\$ <u>2,325,820</u>	<u>2,458,645</u>
Total assets	\$ <u>6,655,965</u>	<u>7,045,064</u>
Debt ratio	<u>35 %</u>	<u>35 %</u>
Equity ratio	<u>65 %</u>	<u>65 %</u>

As of December 31, 2019, there were no changes in the Group's approach of capital management.

(7) Related-party Transactions

(a) Parent Company and ultimate controlling party

The related parties that have transactions with the consolidated company in the reporting period are shown below:

<u>Name of related party</u>	<u>Relationship with the Group</u>
Aspeed Technology Inc (Aspeed)	Associate
GradeUpon Technology Corp. (Grade Upon) (Note)	Other Related Party
Grade Up Technology Corporation (Grade Up) (Note)	Other Related Party

Note: The Company was no longer a related party of the Group from May 2018.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Significant related party transactions

(i) Operating revenue

The amounts of significant sales transactions between the Group and related parties were as follows:

	<u>2019</u>	<u>2018</u>
Other related parties	\$ <u>-</u>	<u>19,488</u>

There were no significant differences in the collection periods between related parties and other customers.

(ii) Purchases

The amount of purchase transactions between the Group and related parties were as follows:

	<u>2019</u>	<u>2018</u>
Associates	\$ <u>7,842</u>	<u>9,682</u>

The purchasing price, other terms and conditions with related parties were not significantly different from those with third parties.

(iii) Payables to related parties

The receivables due from related parties were as follows:

<u>Accounts</u>	<u>Type of related parties</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Accounts payable	Associates	\$ <u>1,022</u>	<u>2,250</u>

(c) Key management personnel compensations

Key management personnel compensation comprised:

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ <u>66,001</u>	<u>75,748</u>

For the years ended December 31, 2019 and 2018, the Group provided three vehicles at a cost of \$12,214 thousand for key management personnel.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged Assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash (recorded under other financial assets – non-current)	Litigation deposits	\$ 1,194	1,220
Cash and negotiable certificate of deposits (recorded under other financial assets – non-current)	Guarantee for provisional attachment	78,786	78,785
Time deposits (recorded under other financial assets – non-current)	Guarantee for customs	4,042	3,999
Negotiable certificate of deposits (recorded under other financial assets – non-current)	Guarantee for provisional seizure	30,550	30,000
Time deposits (recorded under other financial assets – non-current)	Guarantee for financial transaction	2,594	2,685
Property, plant and equipment	Guarantee for long-term and short-term borrowings	271,091	257,256
		<u>\$ 388,257</u>	<u>373,945</u>

(9) Significant Commitments and Contingencies

(a) The unrecognized construction contract of the Group as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Acquire Property, plant and equipment	<u>\$ 42,095</u>	<u>-</u>

(b) As of December 31, 2018, the Group had an unused line of credit for purchasing raw materials amounting to \$4,648 thousand (USD154,382).

(c) As of December 31, 2019 and 2018, the outstanding bank drafts to secure credit facilities and financial instruments amounted to \$1,940,602 thousand and \$1,946,172 thousand, respectively.

(d) During 2014, the Company had filed patent infringement suits against Uniclass Technology Co., Ltd, Electronic Technology Co., Ltd. Of Dongguan Uniclass, Airlink 101, Pheobe Micro Inc, Broadtech International Co., Ltd, d/b/a Linkskey and Black Box Corporation in the Eastern District Court of Texas. In August 2019, the Central District of California reviewed the appeal filed by the Company and ruled the patent to be valid. For the case of infringement of patent right, the court maintaining non-infringement judgment made by jury, the case has been closed.

(e) In September 2019, YiFeng Technology Co., Ltd. filed a lawsuit against the Company for the damage of the product that is under provisional attachment requested by the Company in 2005. The Company has appointed the attorney, the above case is still in progress.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(12) Others

- (a) The following is a summary statement of employee benefits, depreciation and amortization expensed by function:

By nature	Years ended December 31 2019			Years ended December 31 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	287,789	1,284,906	1,572,695	296,907	1,292,831	1,589,738
Labor and health insurance	28,378	114,887	143,265	28,690	103,070	131,760
Pension	6,777	48,037	54,814	6,574	43,605	50,179
Directors' remuneration	-	13,743	13,743	-	22,065	22,065
Others	18,862	72,424	91,286	16,934	66,026	82,960
Depreciation	31,348	118,433	149,781	33,233	55,486	88,719
Amortization	-	-	-	-	-	-

- (b) The Company filed criminal charges against its former employees for not following its policy, wherein they illegally gained profit for themselves during their service in 2015 to 2016. The suspects have already resigned from the Company at the end of 2016. After the Company filed the lawsuit, Taiwan Taipei District Court ruled the defendant to be guilty and made the sentence in July 2019. The Company and both of the defendant filed appeal to the Taiwan High Court in July 2019 and the case is still in progress. The seized \$70,296 thousand criminal proceeds were returned to the Company. The civil lawsuit is still in the first trial at Taipei District Court.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other Disclosures

(a) Information on significant transactions:

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

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	2019				Maximum investment in 2019	Remarks
				Number of shares	Book value	Holding percentage	Market value		
The Company	Mutual fund: JIHSUN Money Market Fund	—	Financial assets at fair value through profit or loss – current	36,158	537,938	-	537,938	1,073,691	
The Company	Nomura Taiwan Money Market Fund	—	Financial assets at fair value through profit or loss – current	3,937	64,480	-	64,480	128,748	
The Company	Union Money Market Fund	—	Financial assets at fair value through profit or loss – current	12,245	162,297	-	162,297	324,275	
The Company	Capital Money Market Fund	—	Financial assets at fair value through profit or loss – current	6,882	111,473	-	111,473	222,455	
The Company	Yuanta De-Li Money Market Fund	—	Financial assets at fair value through profit or loss – current	7,241	118,534	-	118,534	398,409	
The Company	Prudential Financial Money Market Fund	—	Financial assets at fair value through profit or loss – current	10,683	169,657	-	169,657	338,522	
The Company	First Bank Taiwan Money Market Fund	—	Financial assets at fair value through profit or loss – current	17,870	274,535	-	274,535	911,432	
The Company	Stock: SHIN KONG FINANCIAL HOLDING CO., LTD.	—	Financial assets at fair value through other comprehensive income – current	165	1,710	-	1,710	1,710	
The Company	TAIWAN COOPERATIVE BANK	—	Financial assets at fair value through other comprehensive income – current	139	2,893	-	2,893	2,893	
The Company	CHINA DEVELOPMENT FINANCIAL HOLDINGS CO., LTD.	—	Financial assets at fair value through other comprehensive income – current	79	772	-	772	817	
The Company	ACROX CO., LTD.	—	Financial assets at fair value through other comprehensive income – non-current	1,428	14,280	14	14,280	14,280	-
The Company	OptoMedia Technology Inc.	—	Financial assets at fair value through other comprehensive income – non-current	500	7,500	2	7,500	7,500	
HONG JHENG TECHNOLOGY CO., LTD	JIHSUN Money Market Fund	—	Financial assets at fair value through profit or loss – current	2,647	39,382	-	39,382	492,918	
HONG JHENG TECHNOLOGY CO., LTD	Common Stock of Visionary Dynamics Co., Ltd.	—	Financial assets at fair value through other comprehensive income – current	20	-	1	-	-	Note 1
HONG YUAN CO., LTD	JIHSUN Money Market Funds	—	Financial assets at fair value through profit or loss – current	2,955	43,965	-	43,965	563,439	
ATEN FOREMOST INTERNATIONAL CO., LTD.	SHANG TOU Money Market Fund	—	Financial assets at fair value through profit or loss – current	2,978	12,885	-	12,885	19,001	-

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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Name of holder	Nature and name of security	Relationship with the security issuer	Account name	2019				Maximum investment in 2019	Remarks
				Number of shares	Book value	Holding percentage	Market value		
ATEN CHINA CO., LTD.	SHANG TOU Money Market Fund	—	Financial assets at fair value through profit or loss – current	12,160	52,594	-	52,594	52,594	

Note 1: The impairment loss was fully recognized.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Unit: thousand dollars

Name of company	Name of security	Account name	Counterparty	Relationship with the Company	Beginning balance		Purchases		Sales				Ending balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Disposal gain	Shares	Amount
The Company	JHHSUN Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	9,803	145,014	86,108	1,278,680	59,753	887,880	885,812	2,068	36,158	537,938
The Company	Yuanta De-Li Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	15,258	248,413	23,133	377,723	31,150	508,523	507,609	914	7,241	118,534
The Company	Union Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	-	-	26,233	347,280	13,988	185,284	185,000	284	12,245	162,297
The Company	Capital Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	9,441	152,096	18,453	298,361	21,012	339,461	338,993	468	6,882	111,473
The Company	Prudential Financial Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	4,361	68,884	23,314	369,639	16,992	269,639	268,882	757	10,683	169,657
The Company	First Bank Taiwan Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	12,250	187,134	71,246	1,091,611	65,626	1,006,511	1,004,232	2,279	17,870	274,535
HONG YUAN CO., LTD.	JHHSUN Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	996	14,729	37,851	560,000	35,892	532,000	530,982	1,018	2,955	43,965
HONG JHENG TECHNOLOGY CO., LTD	JHHSUN Money Market Fund	Financial assets at fair value through profit or loss – current	-	-	33,532	496,059	-	-	30,885	457,800	456,396	1,404	2,647	39,382

- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	EXPAND ELECTRONIC CO., LTD.	Invested by sub-subsidiary	Purchase	686,942	51	30 days	No significant differences	Note 1	(68,251)	(23)	Note 2
EXPAND ELECTRONIC CO., LTD.	The Company	Invested by sub-subsidiary	(Sales)	(686,942)	(100)	30 days	No significant differences	Note 1	68,251	100	Note 2
The Company	ATEN FOREMOST INTERNATIONAL CO., LTD.	Sub-subsidiary	Purchase	213,988	16	30 days	No significant differences	Note 1	(34,911)	(12)	Note 2
ATEN FOREMOST INTERNATIONAL CO., LTD.	The Company	Sub-subsidiary	(Sales)	(213,988)	(74)	30 days	No significant differences	Note 1	34,911	79	Note 2
The Company	ATEN INFOTECH N.V.	Subsidiary	(Sales)	(500,643)	(14)	90 days	No significant differences	No significant differences	99,073	13	Note 2
ATEN INFOTECH N.V.	The Company	Subsidiary	Purchase	500,643	100	90 days	No significant differences	No significant differences	(99,073)	(100)	Note 2
The Company	ATECH PERIPHERALS.	Subsidiary	(Sales)	(143,514)	(4)	30 days	No significant differences	No significant differences	2,232	-	Note 2

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
ATECH PERIPHERALS.	The Company	Subsidiary	Purchase	143,514	96	30 days	No significant differences	No significant differences	(2,232)	(62)	Note 2
The Company	ATEN KOREA CO., LTD.	Invested by sub-subsidiary	(Sales)	(257,814)	(7)	60 days	No significant differences	No significant differences	62,350	8	Note 2
ATEN KOREA CO., LTD.	The Company	Invested by sub-subsidiary	Purchase	257,814	100	60 days	No significant differences	No significant differences	(62,350)	(101)	Note 2
The Company	ATEN CHINA CO., LTD.	Sub-subsidiary	(Sales)	(344,973)	(10)	45 days	No significant differences	No significant differences	82,150	11	Note 2
ATEN CHINA CO., LTD.	The Company	Sub-subsidiary	Purchase	344,973	91	45 days	No significant differences	No significant differences	(82,150)	(97)	Note 2
The Company	ATEN TECHNOLOGY INC.	Sub-subsidiary	(Sales)	(493,861)	(14)	95~155 days	No significant differences	No significant differences	252,215	34	Note 2
ATEN TECHNOLOGY INC.	The Company	Sub-subsidiary	Purchase	493,861	49	95~155 days	No significant differences	No significant differences	(252,215)	(88)	Note 2
The Company	ATEN JAPAN CO., LTD.	Subsidiary	(Sales)	(317,529)	(9)	45 days	No significant differences	No significant differences	66,065	9	Note 2
ATEN JAPAN CO., LTD.	The Company	Subsidiary	Purchase	317,529	100	45 days	No significant differences	No significant differences	(66,065)	(99)	Note 2

Note 1: Payments are netted with the account receivable resulting from the Company purchasing on behalf of related parties.

Note 2: The transactions within the Group were eliminated in the consolidated financial statements.

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

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	ATEN TECHNOLOGY INC.	Sub-subsidiary	252,215	2.32	-		114,122 (As of March 10, 2020)	-
EXPAND INTERNATIONAL CO., LTD.	The Company	The ultimate parent company	191,778	-	191,778	Depend on capital budgeting	- (As of March 10, 2020)	-

(ix) Trading in derivative instruments:

Please refer to 6(b) for further information.

(x) Business relationships and significant intercompany transactions:

Unit: thousand dollars

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			Percentage of the total consolidated revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	ATEN TECHNOLOGY INC.	1	Sales revenue	493,861	No significant differences	10 %
0	The Company	ATEN INFOTECH N.V.	1	Sales revenue	500,643	No significant differences	10 %
0	The Company	ATEN CHINA CO., LTD.	1	Sales revenue	344,973	No significant differences	7 %
0	The Company	ATEN JAPAN CO., LTD.	1	Sales revenue	317,529	No significant differences	6 %
0	The Company	ATEN KOREA CO., LTD.	1	Sales revenue	257,814	No significant differences	5 %
0	The Company	ATEN UK LTD.	1	Sales revenue	87,213	No significant differences	2 %
0	The Company	ATECH PERIPHERALS.	1	Sales revenue	143,514	No significant differences	3 %
0	The Company	ATEN TECHNOLOGY INC.	1	Accounts receivable	252,215	95~155 Days	4 %
0	The Company	ATEN INFOTECH N.V.	1	Accounts receivable	99,073	90 Days	1 %
0	The Company	ATEN CHINA CO., LTD.	1	Accounts receivable	82,150	45 Days	1 %

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	ATEN JAPAN CO., LTD.	1	Accounts receivable	66,065	45 Days	1 %
0	The Company	ATEN KOREA CO., LTD.	1	Accounts receivable	62,350	60 Days	1 %
0	The Company	ATEN UK LTD.	1	Accounts receivable	23,094	75 Days	- %
0	The Company	ATECH PERIPHERALS.	1	Accounts receivable	2,232	30 Days	- %
1	EXPAND INTERNATIONAL CO., LTD.	The Company	2	Accounts receivable	191,778	Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties.	3 %
2	ATEN FOREMOST INTERNATIONAL CO., LTD.	The Company	2	Sales revenue	213,988	Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties.	4 %
2	ATEN FOREMOST INTERNATIONAL CO., LTD.	The Company	2	Accounts receivable	34,911	Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties.	1 %
3	EXPAND ELECTRONIC CO., LTD.	The Company	2	Sales revenue	686,942	The Company is its only customer	14 %
3	EXPAND ELECTRONIC CO., LTD.	The Company	2	Accounts receivable	68,251	Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties.	1 %
4	ATEN CANADA TECHNOLOGIES INC.	The Company	2	Sales revenue	101,539	The Company is its only customer	2 %
5	ATEN ANZ PTY LTD.	The Company	2	Sales revenue	26,981	No significant differences	1 %
6	ATEN INFO COMMUNICATION LIMITED LIABILITY COMPANY	The Company	2	Sales revenue	9,862	No significant differences	- %
7	ATEN POLAND SP. Z O. O.	The Company	2	Sales revenue	14,219	No significant differences	- %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.
- (3) 3 represents sidestream transactions.

(b) Information on investees:

The following is the information on investees for the years period ended December 31, 2019:

Name of investor	Name of investee	Location	Scope of business	Original cost		Ending balance			Maximum investment in 2019	Net income of investee	Investment income (losses)	Remarks
				December 31, 2019	December 31, 2018	Shares	Ratio of shares	Book value				
The Company	TOPMOST INTERNATIONAL CO., LTD.	Cayman	Investing	22,183	22,183	700	100 %	416,616	22,183	26,738	26,738	note 1
The Company	ATEN JAPAN CO., LTD.	Japan	Trading of computer peripheral equipment	25,105	25,105	2	100 %	70,677	25,105	38,056	38,056	note 1
The Company	ATEN US HOLDING INC.	USA	Investing	107,872	107,872	3,380	100 %	(82,474)	107,872	(59,240)	(59,240)	note 1
The Company	FOREMOST INTERNATIONAL CO., LTD.	Mauritius	Investing	69,730	69,730	2,181	100 %	57,522	63,730	(16,916)	(16,916)	note 1

Unit: thousand dollars
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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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Name of investor	Name of investee	Location	Scope of business	Original cost		Ending balance			Maximum investment in 2019	Net income of investee	Investment income (losses)	Remarks
				December 31, 2019	December 31, 2018	Shares	Ratio of shares	Book value				
The Company	ATEN RESEARCH INC.	USA	Trading of computer peripheral equipment	15,494	15,494	3	95 %	260	15,494	-	-	note 1
The Company	A TECH PERIPHERALS	Taiwan	Trading of computer peripheral equipment	15,479	15,479	2,500	100 %	51,050	15,479	10,666	10,666	note 1
The Company	ATEN INFOTECH N.V.	Belgium	Trading of computer peripheral equipment	54,197	54,197	58	100 %	(676)	54,197	(14,582)	(14,582)	note 1
The Company	ATEN COMPUTER PRODUCTS CO., LTD.	Thailand	Trading of computer peripheral equipment	14,578	14,578	300	100 %	10,335	14,578	(379)	(379)	note 1
The Company	VISIONTOP CO., LTD.	Taiwan	Specialized printing	86,483	86,483	6,472	60 %	61,188	86,483	3,602	2,146	note 1
The Company	HONG JHENG TECHNOLOGY CO., LTD.	Taiwan	Investing	31,778	31,778	1,600	100 %	44,936	31,778	1,158	1,158	note 1
The Company	HONG YUAN CO., LTD.	Taiwan	Investing	31,778	31,778	1,600	100 %	49,037	31,778	1,259	1,259	note 1
The Company	ATEN ANZ PTY LTD.	Australia	Trading of computer peripheral equipment	42,186	42,186	1,750	100 %	21,604	42,186	1,947	1,947	note 1
The Company	RCM FULLY AUTOMATION CO., LTD.	Taiwan	Trading of computer peripheral equipment	7,800	7,800	780	26 %	4,283	7,800	(9,066)	(2,357)	note 1
The Company	ATEN INFO COMMUNICAION LIMITED LIABILITY COMPANY	Turkey	Trading of computer peripheral equipment	17,683	17,683	2	100 %	3,000	17,683	(45)	(45)	note 1
The Company	ATEN POLAND SP Z.O. O.	Poland	Trading of computer peripheral equipment	8,295	8,295	20	100 %	7,394	8,295	1,485	1,485	note 1
The Company	ATEN ROMANIA S.R.L.	Romania	Trading of computer peripheral equipment	5,839	-	80	100 %	5,912	5,839	296	296	note 1
The Company	ASPEED TECHNOLOGY INC.	Taiwan	Designing of Integrated Circuit	7,757	7,757	1,044	3 %	84,809	7,757	830,288	25,586	
TOPMOST INTERNATIONAL CO., LTD.	ATEN EUROPE LTD.	UK	Investing	67,279	67,279	1,069	100 %	126,822	67,279	21,502	21,502	note 1
TOPMOST INTERNATIONAL CO., LTD.	I/O MASTER INC.	Samoa	Investing	9,782	9,782	700	100 %	28,303	9,782	2,296	2,296	note 1
ATEN US HOLDING INC.	ATEN NEW JERSEY INC.	USA	Trading of computer peripheral equipment	22,815	22,815	160	20 %	6,474	22,815	(495)	(99)	note 1
ATEN US HOLDING INC.	ATEN TECHNOLOGY INC.	USA	Trading of computer peripheral equipment	87,993	87,993	2,672	97 %	20,644	87,993	(59,186)	(57,517)	note 1
ATEN TECHNOLOGY INC.	ATEN NEW JERSEY INC.	USA	Trading of computer peripheral equipment	3,303	3,303	640	80 %	25,895	3,303	(495)	(396)	note 1
ATEN EUROPE LTD.	ATEN UK LTD.	UK	Trading of computer peripheral equipment	37,922	37,922	650	100 %	4,006	37,922	265	265	note 1
ATEN EUROPE LTD.	ATEN KOREA CO., LTD.	Korea	Trading of computer peripheral equipment	34,811	34,811	102	85 %	127,855	34,811	28,073	23,862	note 1
I/O MASTER INC.	ATEN CANADA TECHNOLOGIES INC.	Canada	Research and development	3	3	-	100 %	36,196	3	2,332	2,332	note 1
I/O MASTER INC.	I/OGEAR, INC.	USA	Trading of computer peripheral equipment	3	3	-	100 %	-	3	-	-	note 1
A TECH PERIPHERALS	RCM FULLY AUTOMATION CO., LTD.	Taiwan	Trading of computer peripheral equipment	22,066	22,066	2,220	74 %	12,189	22,066	(9,066)	(6,709)	note 1

Note 1: Eliminated in the consolidated financial statements.

(c) Information on investment in mainland China:

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

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2019	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2019	Net income on investee	Direct / indirect investment holding percentage	Maximum investment in 2019	Investment income (loss) (Note 4)	Book value	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount							
EXPAND INTERNATIONAL CO., LTD. (Note 2)	Investing	21,383	(3)	21,383	-	-	21,383	2,730	100 %	21,383	2,730	306,909	69,337
ATEN CHINA CO., LTD.	Trading of computer peripheral equipment	56,924	(3)	39,847	-	-	39,847	(1,488)	70 %	39,847	(1,042)	47,014	86,093
ATEN FOREMOST INTERNATIONAL CO., LTD.	Manufacturing and trading of computer peripheral equipment	29,315	(3)	29,315	-	-	29,315	(16,940)	100 %	29,315	(16,940)	33,188	-
EXPAND ELECTRONIC CO., LTD.	Manufacturing of computer peripheral products	67,184	(3)	34,706	-	-	34,706	2,316	100 %	67,184	2,316	114,213	-

Note 1: The method of investment is divided into the following four categories:

- (1) Remittance from third-region companies to invest in Mainland China.
- (2) Through the establishment of third-region companies then investing in Mainland China.
- (3) Through transferring the investment to third-region existing companies then investing in Mainland China.
- (4) Other methods: EX: delegated investments.

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Note 2: In response to the regulation toward processing plants in China and Chinese government's incentive rewards for processing plants turn funded enterprises, the Company's investment through third party companies to reinvest the mainland areas of existing processing plant in Shenzhen, mainland was converted to a wholly owned company (EXPAND ELECTRONIC CO., LTD.) on March 27, 2012.

Note 3: Aforementioned amounts have been eliminated upon consolidation.

Note 4: The financial statements of the investee are audited by the auditors of the parent company. Investment gains (losses) are accounted for by the equity method.

Note 5: The exchange rate is USD 1 to NTD30.1060.

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount remitted from Taiwan to Mainland China at the end of the period	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	125,251	165,583	- (Note 1)

Note 1: The Company was certified as an operations center by the Industrial Development Bureau, Ministry of Economic Affairs, in approval letter No.10720414460, and the certification is valid from May 18, 2018 to May 17, 2021. The Company has no limitation on investment in Mainland China during the abovementioned period.

Note 2: The exchange rate is USD1 to NTD30.1060.

(iii) Significant transactions:

Please refer to 13(a) item No. 10 for further information.

(14) Segment information:

(a) General information

The Group has two reportable segments: computer peripheral equipment segment and specialized printing segment. The computer peripheral equipment segment is primarily involved in the production and sales of computer peripheral equipment. The specialized printing segment is primarily involved in the printing of advertisements.

The reportable segments are the Group's strategic divisions, offering different products and services. Because each strategic division requires different technology and marketing strategies, each division is managed separately.

(b) Information on the reportable segment's profit or loss, assets, liabilities, and their measurement and reconciliations

The Group uses the internal management report (that the chief operating decision maker reviews) as the basis to determine resource allocation and make a performance evaluation. The internal management report (including profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses due to taxation, extraordinary activity and foreign exchange gain or losses) are managed on a group basis, and hence, they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is consistent with that in the report used by the chief operating decision maker.

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The operating segment accounting policies are similar to the ones described in note 4 "Significant Accounting Policies".

The Group treats intersegment sales and transfers as third-party transactions. They are measured at marker price.

The Group's operating segment information and reconciliation are as follows:

	2019			Total
	Computer peripheral equipment	Others	Adjustments or elimination	
Revenue:				
Revenue from external customers	\$ 4,889,680	143,039	-	5,032,719
Inter-segment revenues	<u>3,235,970</u>	-	<u>(3,235,970)</u>	-
Total revenue	<u>\$ 8,125,650</u>	<u>143,039</u>	<u>(3,235,970)</u>	<u>5,032,719</u>
Reportable segment profit or loss	<u>\$ 876,832</u>	<u>3,602</u>	<u>17,310</u>	<u>897,744</u>
Reportable segment assets (Note)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2018			
	Computer peripheral equipment	Others	Adjustments or elimination	Total
Revenue:				
Revenue from external customers	\$ 5,039,468	133,542	-	5,173,010
Inter-segment revenues	<u>3,439,202</u>	-	<u>(3,439,202)</u>	-
Total revenue	<u>\$ 8,478,670</u>	<u>133,542</u>	<u>(3,439,202)</u>	<u>5,173,010</u>
Reportable segment profit or loss	<u>\$ 2,856,456</u>	<u>3,883</u>	<u>(1,003,369)</u>	<u>1,856,970</u>
Reportable segment assets (Note)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note: As the information on segment assets was not provided to the chief operating decision marker, the information segment assets is not disclosed.

In 2019 and 2018, inter-segment revenues of \$3,235,970 thousand and \$3,439,202 thousand respectively, should be eliminated from total revenue. Share of associate profit under equity method amounting to \$(17,310) thousand and \$1,003,369 thousand, respectively, should be eliminated.

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(c) Information about the products and services

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

<u>Products and services</u>	<u>2019</u>	<u>2018</u>
IT infrastructure management solutions	\$ 3,174,828	3,146,094
Video products	942,642	1,004,650
Other	<u>915,249</u>	<u>1,022,266</u>
Total	<u>\$ 5,032,719</u>	<u>5,173,010</u>

(d) Geographic information

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

<u>Geographic information</u>	<u>2019</u>	<u>2018</u>
Revenue from external customers:		
United States	\$ 1,023,203	1,213,235
China	543,523	533,087
Japan	662,769	568,931
Other countries	<u>2,803,224</u>	<u>2,857,757</u>
Total	<u>\$ 5,032,719</u>	<u>5,173,010</u>

<u>Geographical information</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current assets:		
Taiwan	\$ 1,706,698	1,691,734
Other countries	<u>438,208</u>	<u>305,481</u>
Total	<u>\$ 2,144,906</u>	<u>1,997,215</u>

Non-current assets include property, plant and equipment, right-of-use assets, intangible assets, and other assets. They do not include financial instruments and deferred income tax assets.

(e) Information about major customers

For the years 2019 and 2018, the Group had no major customer who constituted 10% or more of the net sales.