

**Test-Rite International Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Test-Rite International Co., Ltd.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Existence of Sales Revenue

The Group's main source of revenues comes from export sales, in which the level of revenue generated by the export sales to one major customer is significant to the consolidated financial statements. We therefore considered that the existence of sales revenue from this major customer as a key audit matter for the year ended December 31, 2019..

Our audit procedures in response to the existence of sales revenue were as follows:

1. We understood the design and implementation of internal controls and tested the operating effectiveness of controls over sales revenue.
2. We selected samples and tested sales revenue items from this major customer to ensure the validity of transactions.
3. We obtained the confirmation regarding the ending balance of accounts receivable and performed tests of subsequent collections from this major customer to verify the occurrence of transactions.

Other Matter

We have also audited the parent company only financial statements of Test-Rite International Co., Ltd. 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 the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chi-Ming Hsu and Hung-Bin Yu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 25, 2020

Notice to Readers

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

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

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 1,462,426	4	\$ 1,995,662	8
Financial assets at fair value through profit or loss - current (Note 7)	620,732	2	303,131	1
Financial assets at amortized cost - current (Notes 4 and 8)	22,937	-	30,810	-
Contract assets - current (Notes 4 and 22)	216,962	1	204,203	1
Notes receivable from unrelated parties (Note 9)	51,707	-	64,925	-
Trade receivables from unrelated parties (Note 9)	4,165,566	12	4,485,420	17
Finance lease receivables	21,544	-	-	-
Other receivables	101,865	-	127,351	1
Inventories (Note 10)	6,493,270	18	5,779,602	22
Prepayments	367,967	1	317,108	1
Other current financial assets	41,705	-	17,755	-
Other current assets	34,208	-	36,609	-
Total current assets	<u>13,600,889</u>	<u>38</u>	<u>13,362,576</u>	<u>51</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 11)	54,069	-	49,213	-
Financial assets at amortized cost - non-current (Notes 4 and 8)	9,268	-	43,991	-
Property, plant and equipment (Note 13)	6,490,332	18	6,886,512	27
Right-of-use assets (Note 14)	9,606,013	27	-	-
Goodwill (Note 15)	2,356,155	7	2,361,198	9
Other intangible assets (Note 16)	220,981	1	229,985	1
Deferred tax assets (Note 4)	1,545,315	4	1,436,403	6
Finance lease receivables - non-current	113,350	-	-	-
Refundable deposits (Note 6)	1,253,155	4	993,070	4
Other non-current assets (Notes 4 and 20)	426,423	1	635,071	2
Total non-current assets	<u>22,075,061</u>	<u>62</u>	<u>12,635,443</u>	<u>49</u>
TOTAL	<u>\$ 35,675,950</u>	<u>100</u>	<u>\$ 25,998,019</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 17)	\$ 1,307,151	4	\$ 2,146,783	8
Short-term bills payable (Note 17)	49,978	-	99,966	-
Financial liabilities at fair value through profit or loss - current (Note 7)	321	-	16,017	-
Contract liabilities - current (Notes 4 and 22)	72,066	-	65,816	-
Notes payable to unrelated parties	27,571	-	40,095	-
Trade payables to unrelated parties	6,399,111	18	6,118,110	24
Other payables (Notes 18 and 19)	1,630,551	5	1,621,052	6
Current tax liabilities (Note 4)	77,628	-	122,687	1
Lease liabilities - current (Note 14)	1,721,577	5	-	-
Advance receipts	541,394	2	597,015	2
Current portion of long-term borrowings (Note 17)	85,180	-	1,073,571	4
Other current liabilities	124,728	-	151,537	1
Total current liabilities	<u>12,037,256</u>	<u>34</u>	<u>12,052,649</u>	<u>46</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 17)	9,424,773	26	6,094,520	23
Deferred tax liabilities (Note 4)	18,218	-	20,907	-
Lease liabilities - non-current (Note 14)	7,348,041	21	-	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	154,425	-	130,585	1
Guarantee deposits received	209,262	1	225,527	1
Other non-current liabilities	47,328	-	60,347	-
Total non-current liabilities	<u>17,202,047</u>	<u>48</u>	<u>6,531,886</u>	<u>25</u>
Total liabilities	<u>29,239,303</u>	<u>82</u>	<u>18,584,535</u>	<u>71</u>
EQUITY ATTRIBUTABLE TO OWNERS OF TEST-RITE				
Share capital				
Ordinary shares (Note 21)	5,098,875	14	5,098,875	20
Capital surplus (Note 21)	353,084	1	647,962	2
Retain earnings (Note 21)				
Legal reserve	1,229,705	4	1,189,056	4
Special reserve	241,414	1	180,438	1
Unappropriated earnings	84,233	-	462,938	2
Total retain earnings	1,555,352	5	1,832,432	7
Other equity (Note 21)	(396,905)	(1)	(241,414)	(1)
Treasury shares (Note 21)	(313,256)	(1)	-	-
Total equity attributable to owners of the Company	6,297,150	18	7,337,855	28
NON-CONTROLLING INTERESTS	139,497	-	75,629	1
Total equity	<u>6,436,647</u>	<u>18</u>	<u>7,413,484</u>	<u>29</u>
TOTAL	<u>\$ 35,675,950</u>	<u>100</u>	<u>\$ 25,998,019</u>	<u>100</u>

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

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 22)	\$ 38,060,813	100	\$ 39,897,950	100
OPERATING COSTS (Note 10)	<u>27,751,671</u>	<u>73</u>	<u>29,636,961</u>	<u>74</u>
GROSS PROFIT	10,309,142	27	10,260,989	26
OPERATING EXPENSES				
Selling and marketing expenses	7,775,258	21	8,070,576	20
General and administrative expenses	1,678,519	4	1,702,533	5
Expected credit (gain) loss	<u>(1,257)</u>	<u>-</u>	<u>5,238</u>	<u>-</u>
Total operating expenses	<u>9,452,520</u>	<u>25</u>	<u>9,778,347</u>	<u>25</u>
PROFIT FROM OPERATIONS	<u>856,622</u>	<u>2</u>	<u>482,642</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	28,902	-	24,932	-
Other income	161,263	1	150,962	-
Gain on sale of investments, net	14,284	-	10,537	-
Foreign exchange gains	124,507	-	151,708	1
Net gain on financial instruments at fair value through profit or loss	34,566	-	5,022	-
Interest expense	(491,810)	(1)	(292,010)	(1)
Other expenses	(366,037)	(1)	(77,126)	-
Loss on disposal of property, plant and equipment	(34,809)	-	(86,454)	-
Impairment loss (Note 13)	<u>(236,139)</u>	<u>(1)</u>	<u>(24,156)</u>	<u>-</u>
Total non-operating income and expenses	<u>(765,273)</u>	<u>(2)</u>	<u>(136,585)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	91,349	-	346,057	1
INCOME TAX BENEFIT (Notes 4 and 23)	<u>20,151</u>	<u>-</u>	<u>72,864</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>111,500</u>	<u>-</u>	<u>418,921</u>	<u>1</u>

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (33,572)	-	\$ (26,221)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(3,313)	-	(1,161)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(152,262)</u>	<u>-</u>	<u>(34,193)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(189,147)</u>	<u>-</u>	<u>(61,575)</u>	<u>-</u>
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	<u>\$ (77,647)</u>	<u>-</u>	<u>\$ 357,346</u>	<u>1</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 100,355	-	\$ 406,493	1
Non-controlling interests	<u>11,145</u>	<u>-</u>	<u>12,428</u>	<u>-</u>
	<u>\$ 111,500</u>	<u>-</u>	<u>\$ 418,921</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ (88,775)	-	\$ 344,713	1
Non-controlling interests	<u>11,128</u>	<u>-</u>	<u>12,633</u>	<u>-</u>
	<u>\$ (77,647)</u>	<u>-</u>	<u>\$ 357,346</u>	<u>1</u>
EARNINGS PER SHARE (Notes 4 and 24)				
Basic	<u>\$ 0.20</u>		<u>\$ 0.80</u>	
Diluted	<u>\$ 0.20</u>		<u>\$ 0.80</u>	

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

(Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of Test-Rite												
	Equity Attributable to Owners of Test-Rite						Other Equity						
	Share Capital		Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Treasury Shares	Total	Non-controlling Interests	Total Equity
Share (In Thousands)	Share Capital	Legal Reserve		Special Reserve	Unappropriated Earnings								
BALANCE AT JANUARY 1, 2018	509,888	\$ 5,098,875	\$ 647,962	\$ 1,110,326	\$ 166,380	\$ 787,297	\$ (180,463)	\$ 25	\$ -	\$ -	\$ 7,630,402	\$ 41,865	\$ 7,672,267
Effect of retrospective application	-	-	-	-	-	-	-	(25)	(25,370)	-	(25,395)	-	(25,395)
ADJUSTED BALANCE, JANUARY 1, 2018	509,888	5,098,875	647,962	1,110,326	166,380	787,297	(180,463)	-	(25,370)	-	7,605,007	41,865	7,646,872
Appropriation of 2017 earnings (Note 21)													
Legal reserve	-	-	-	78,730	-	(78,730)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	14,058	(14,058)	-	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	-	-	(611,865)	-	-	-	-	(611,865)	-	(611,865)
Cash dividends to subsidiaries' shareholders	-	-	-	-	-	-	-	-	-	-	-	(4,753)	(4,753)
Net profit for the year ended December 31, 2018	-	-	-	-	-	406,493	-	-	-	-	406,493	12,428	418,921
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(26,199)	(34,420)	-	(1,161)	-	(61,780)	205	(61,575)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	380,294	(34,420)	-	(1,161)	-	344,713	12,633	357,346
Increase of non-controlling interests (Note 25)	-	-	-	-	-	-	-	-	-	-	-	25,884	25,884
BALANCE AT DECEMBER 31, 2018	509,888	5,098,875	647,962	1,189,056	180,438	462,938	(214,883)	-	(26,531)	-	7,337,855	75,629	7,413,484
Effect of retrospective application (Note 3)	-	-	-	-	-	13,125	-	-	-	-	13,125	604	13,729
ADJUSTED BALANCE, JANUARY 1, 2019	509,888	5,098,875	647,962	1,189,056	180,438	476,063	(214,883)	-	(26,531)	-	7,350,980	76,233	7,427,213
Appropriation of 2018 earnings (Note 21)													
Legal reserve	-	-	-	40,649	-	(40,649)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	60,976	(60,976)	-	-	-	-	-	-	-
Cash dividends	-	-	(295,735)	-	-	(356,921)	-	-	-	-	(652,656)	-	(652,656)
Cash dividends to subsidiaries' shareholders	-	-	-	-	-	-	-	-	-	-	-	(13,938)	(13,938)
Net profit for the year ended December 31, 2019	-	-	-	-	-	100,355	-	-	-	-	100,355	11,145	111,500
Other comprehensive loss for the year ended December 31, 2019	-	-	-	-	-	(33,639)	(152,178)	-	(3,313)	-	(189,130)	(17)	(189,147)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	66,716	(152,178)	-	(3,313)	-	(88,775)	11,128	(77,647)
Buy-back of ordinary shares (Note 21)	-	-	-	-	-	-	-	-	-	(313,256)	(313,256)	-	(313,256)
Changes in percentage of ownership interests in subsidiaries	-	-	857	-	-	-	-	-	-	-	857	66,074	66,931
BALANCE AT DECEMBER 31, 2019	509,888	\$ 5,098,875	\$ 353,084	\$ 1,229,705	\$ 241,414	\$ 84,233	\$ (367,061)	\$ -	\$ (29,844)	\$ (313,256)	\$ 6,297,150	\$ 139,497	\$ 6,436,647

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

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 91,349	\$ 346,057
Adjustments for:		
Depreciation expense	2,558,398	611,339
Amortization expense	122,773	113,001
Expected credit (gain) loss recognized on trade receivables	(1,257)	5,238
Net loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(34,566)	(5,022)
Interest expense	491,810	292,010
Interest income	(28,902)	(24,932)
Compensation costs of share-based payment	776	-
Loss on disposal and impairment of property, plant and equipment	34,809	86,454
Gain on disposal of investments	(14,284)	(10,537)
Impairment loss	236,139	24,156
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(284,447)	318,427
Contract assets	(12,759)	(67,610)
Notes receivable	13,218	(18,871)
Trade receivables	321,111	(1,504,088)
Other receivables	25,589	250,054
Inventories	(713,668)	143,554
Prepayments	(117,933)	(24,797)
Other current assets	2,401	285
Other financial assets	(1)	1,319
Other operating assets	(14,969)	42,264
Contract liabilities	6,250	(24,256)
Notes payable	(12,524)	28,188
Trade payables	281,001	602,670
Other payables	37,667	156,120
Advance receipts	(55,621)	119,554
Other current liabilities	(26,809)	38,521
Other operating liabilities	(23,957)	(60,176)
Cash generated from operations	2,881,594	1,438,922
Interest received	28,799	25,073
Interest paid	(498,608)	(287,529)
Income tax paid	(169,665)	(191,384)
Net cash generated from operating activities	<u>2,242,120</u>	<u>985,082</u>

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	\$ (155,527)	\$ (28,588)
Proceeds from sale of financial assets at amortized cost	198,123	191,470
Net cash outflow on acquisition of subsidiaries	-	(46,195)
Purchase of financial assets at fair value through other comprehensive income	(8,567)	-
Payments for property, plant and equipment	(1,102,277)	(2,045,143)
Proceeds from disposal of property, plant and equipment	2,005	7,355
Increase in refundable deposits	(260,085)	(189,080)
Payments for intangible assets	(29,972)	(77,858)
Decrease in finance lease receivables	15,777	-
Other non-current assets	<u>(109,730)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,450,253)</u>	<u>(2,188,039)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments of) short-term borrowings	(839,632)	934,945
Proceeds from (repayments of) short-term bills payable	(49,988)	19,974
Proceeds from long-term borrowings	19,660,846	8,922,539
Repayments of long-term borrowings	(17,318,984)	(7,477,418)
Decrease in guarantee deposits received	(16,265)	(4,750)
Dividends paid	(652,656)	(611,865)
Repayment of the principal portion of lease liabilities	(1,790,268)	-
Payments for buy-back of ordinary shares	(313,256)	-
Changes in non-controlling interests	<u>52,217</u>	<u>(4,753)</u>
Net cash (used in) generated from financing activities	<u>(1,267,986)</u>	<u>1,778,672</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(57,117)</u>	<u>(41,200)</u>
NET(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(533,236)	534,515
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	<u>1,995,662</u>	<u>1,461,147</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
	<u>\$ 1,462,426</u>	<u>\$ 1,995,662</u>

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

(Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

1. GENERAL INFORMATION

Test-Rite International Co., Ltd. (“Test-Rite” or the “Company”) was established in August 1978.

Test-Rite is engaged mainly in the import and export of hand tools, auto parts, machinery, furniture, and various home appliances. Test-Rite’s marketplaces are primarily located in the United States of America, Canada, Great Britain, France, Germany, Australia, etc.

The Taiwan Securities and Futures Commission approved Test-Rite’s application for listing on the Taiwan Stock Exchange in February 1993.

The consolidated financial statements of Test-Rite and its subsidiaries, hereto forth collectively referred to as the “Group”, are presented in Test-Rite’s functional currency, the New Taiwan dollar.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by Test-Rite’s board of directors on March 25, 2020.

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

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

- IFRS 16 “Leases”

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

Definition of a lease

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

The Group as lessee

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

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

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

The Group also applies the following practical expedients:

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

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 1.69%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 12,752,156
Less: Recognition exemption for short-term leases	(4,607)
Less: Recognition exemption for leases of low-value assets	<u>(648)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 12,746,901</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 10,935,552</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 10,935,552</u>

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Lease receivables - current	\$ -	\$ 18,535	\$ 18,535
Lease receivables - non-current	-	132,136	132,136
Prepayments for leases - current	67,074	(67,074)	-
Prepayments for leases - non-current	301,344	(301,344)	-
Property, plant and equipment	6,886,512	(526,942)	6,359,570
Right-of-use assets	<u>-</u>	<u>11,693,970</u>	<u>11,693,970</u>
Total effect on assets	<u>\$ 7,254,930</u>	<u>\$ 10,949,281</u>	<u>\$ 18,204,211</u>
Lease liabilities - current	\$ -	\$ 1,699,817	\$ 1,699,817
Lease liabilities - non-current	<u>-</u>	<u>9,235,735</u>	<u>9,235,735</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 10,935,552</u>	<u>\$ 10,935,552</u>
Retained earnings	\$ 1,832,432	\$ 13,125	\$ 1,845,557
Non-controlling interests	<u>75,629</u>	<u>604</u>	<u>76,233</u>
Total effect on equity	<u>\$ 1,908,061</u>	<u>\$ 13,729</u>	<u>\$ 1,921,790</u>

The Group as lessor

Except for sublease transactions, the Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The Group subleased its leasehold shopping mall to a third party in 2019. Such sublease was classified as an operating lease under IAS 17.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

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

Classification of Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;

- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

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

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

Basis of Consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of Test-Rite and the entities controlled by Test-Rite (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisition up to the effective dates of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of Test-Rite and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12 for the detailed information of subsidiaries (including the percentage of ownership and main business).

Business Combinations

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Foreign Currencies

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

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Inventories

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

Property, Plant and Equipment

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

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

Goodwill

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

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

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

Intangible Assets

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

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating units to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

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

b) Financial assets at amortized cost

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

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

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

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

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

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

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

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

c) Investments in equity instruments at FVTOCI

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

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

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

2) Impairment of financial assets and contract assets

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

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

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

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

- a) Internal or external information show that the debtor is unlikely to pay its creditors.
- b) When a financial asset is more than 90 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3) Derecognition of financial assets

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

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

b. Financial liabilities

1) Subsequent measurement

Except financial liabilities at FVTPL, all the financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) Derecognition of financial liabilities

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

c. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Provisions

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

Revenue Recognition

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

a. Revenue from the sale of goods

Revenue from the sale of goods comes from sales of furniture and various home appliances. Sales of furniture and various home appliances are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

Under Customer Loyalty Program, the Group offers vouchers which can be used for future purchases when the customers purchased the products. The voucher provides a material right to the customer. The transaction price allocated to the voucher is recognized as a contract liability when collected and will be recognized as revenue when the voucher is redeemed or has expired.

b. Revenue from the rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

c. Construction contract revenue

Revenue from the construction in progress is recognized with reference to the stage of completion of the contract. The Group measures the progress on the basis of costs incurred relative to the total expected costs as there is a direct relationship between the costs incurred and the progress of satisfying the performance obligations.

Contract assets are recognized during the construction and are reclassified to trade receivables at the point at which the customer is invoiced. If the milestone payments exceed the revenue recognized to date, then the Group recognizes contract liabilities for the difference. Certain payments, which are retained by the customer as specified in the contract, are intended to ensure that the Group adequately completes all of its contractual obligations. Such retention receivables are recognized as contract assets until the Group satisfies its performance obligations.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred for which recovery is probable.

Leases

2019

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

a. The Group as lessor

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

When the Group subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Group, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

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

b. The Group as lessee

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

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

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

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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

2018

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

a. The Group as lessor

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

b. The Group as lessee

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

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

Share-based Payment Arrangements

The fair value at the grant date of the employee share options granted to employee that is vesting immediately is recognized as an expense in full at the grant date, based on the Group's best estimate of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options.

Taxation

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

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 57,211	\$ 111,466
Checking accounts and demand deposits	1,401,200	1,815,736
Cash equivalents	<u>4,015</u>	<u>68,460</u>
	<u>\$ 1,462,426</u>	<u>\$ 1,995,662</u>

The time deposits with original maturities of more than 3 months were \$32,205 thousand and \$74,801 thousand as of December 31, 2019 and 2018, respectively, and reclassified to financial assets at amortized cost (see Note 8).

The following time deposits were pledged as for purchases of raw materials and collaterals warranties of construction and reclassified to refundable paid:

	December 31	
	2019	2018
Time deposits	<u>\$ 437,502</u>	<u>\$ 215,980</u>

7. FINANCIAL INSTRUMENTS AT FVTPL

	December 31	
	2019	2018
Financial assets mandatorily classified as at FVTPL - current		
Derivative financial assets		
Foreign exchange forward contracts	\$ 30,138	\$ 32,757
Non-derivative financial assets		
Equity securities listed in open market	5,799	16,420
Mutual funds	147,374	73,085
Corporate bonds	13,186	8,240
Financial products	<u>424,235</u>	<u>172,629</u>
	<u>\$ 620,732</u>	<u>\$ 303,131</u>
Financial liabilities held for trading - current		
Derivative financial liabilities		
Foreign exchange forward contracts	\$ 321	\$ 16,017
	<u>\$ 321</u>	<u>\$ 16,017</u>

Outstanding forward exchange contracts as of balance sheet dates were as follows:

	Currency	Maturity Period	Contract Amount (In Thousands)
<u>December 31, 2019</u>			
Forward exchange contracts - sell	US\$/NT\$	2020.01.03-2020.06.04	US\$292,000/NT\$8,799,420
Forward exchange contracts - buy	US\$/NT\$	2020.01.02-2020.07.01	US\$326,000/NT\$9,824,010
Forward exchange contracts - sell	EUR/US\$	2020.01.21-2020.04.30	EUR1,170/US\$1,305
Forward exchange contracts - buy	EUR/US\$	2020.01.14-2020.06.19	US\$17,933/EUR15,730
Forward exchange contracts - sell	US\$/EUR	2020.01.17-2020.09.22	US\$780/EUR683
Forward exchange contracts - sell	AUD/EUR	2020.01.13	AUD45/EUR28
<u>December 31, 2018</u>			
Forward exchange contracts - sell	US\$/NT\$	2019.01.02-2019.02.25	US\$101,000/NT\$3,104,033
Forward exchange contracts - buy	US\$/NT\$	2019.01.02-2019.02.26	US\$148,000/NT\$4,548,484
Forward exchange contracts - sell	EUR/US\$	2019.01.10	EUR100/US\$114
Forward exchange contracts - buy	EUR/US\$	2019.02.12-2019.12.30	US\$16,903/EUR13,695
Forward exchange contracts - sell	US\$/EUR	2019.01.30-2019.12.12	US\$1,387/EUR1,160
Forward exchange contracts - sell	AUD/EUR	2019.01.03-2019.01.13	AUD508/EUR311

The Group entered into derivative contracts to manage exposures to exchange rate fluctuations of foreign-currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and therefore were not accounted for using hedge accounting.

8. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2019	2018
Current		
Time deposits with original maturity of more than 3 months (Note 6)	<u>\$ 22,937</u>	<u>\$ 30,810</u>
Non-current		
Time deposits with original maturity of more than 3 months (Note 6)	<u>\$ 9,268</u>	<u>\$ 43,991</u>

As of December 31, 2019 and 2018, financial assets at amortized cost of \$23,944 thousand and \$20,660 thousand, respectively, were pledged as collateral for borrowings and for retail channels (see Note 30).

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	2019	2018
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ 51,707	\$ 64,925
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>51,707</u>	<u>64,925</u>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	4,032,228	4,157,413
Less: Allowance for impairment loss	<u>(5,853)</u>	<u>(43,704)</u>
	4,026,375	4,113,709
Financial assets at FVTOCI	<u>139,191</u>	<u>371,711</u>
	<u>4,165,566</u>	<u>4,485,420</u>
	<u>\$ 4,217,273</u>	<u>\$ 4,550,345</u>

The average credit period of sales of goods was 90 days. No interest was charged on notes receivable or trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group measures the loss allowance for notes receivable and trade receivables at an amount equal to lifetime ECLs. The expected credit losses on notes receivable and trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status of notes receivable and trade receivables.

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

The following table details the loss allowance of notes receivable and trade receivables based on the Group's estimation by reference to past default experience of the debtor and an analysis of the debtor's current financial position.

December 31, 2019

	Not Past Due	Less than 30 Days	31 to 60 Days	61 to 365 Days	Over 365 Days	Total
Expected credit loss rate	-	-	-	-	95%-100%	
Gross carrying amount	\$ 3,964,527	\$ 123,925	\$ 44,628	\$ 83,553	\$ 6,493	\$ 4,223,126
Loss allowance (Lifetime ECLs)	-	-	-	-	(5,853)	(5,853)
Amortized cost	<u>\$ 3,964,527</u>	<u>\$ 123,925</u>	<u>\$ 44,628</u>	<u>\$ 83,553</u>	<u>\$ 640</u>	<u>\$ 4,217,273</u>

December 31, 2018

	Not Past Due	Less than 30 Days	31 to 60 Days	61 to 365 Days	Over 365 Days	Total
Expected credit loss rate	-	-	-	-	95%-100%	-
Gross carrying amount	\$ 4,068,507	\$ 385,772	\$ 35,891	\$ 57,680	\$ 46,199	\$ 4,594,049
Loss allowance (Lifetime ECLs)	-	-	-	-	(43,704)	(43,704)
Amortized cost	<u>\$ 4,068,507</u>	<u>\$ 385,772</u>	<u>\$ 35,891</u>	<u>\$ 57,680</u>	<u>\$ 2,495</u>	<u>\$ 4,550,345</u>

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Balance at January 1	\$ 43,704	51,191
Add: Net remeasurement of loss allowance	-	5,238
Less: Written off	(36,497)	(13,076)
Less: Net remeasurement of loss allowance	(1,257)	-
Foreign exchange gains and losses	<u>(97)</u>	<u>351</u>
Balance at December 31	<u>\$ 5,853</u>	<u>\$ 43,704</u>

The trade receivables factoring are summarized as follows:

(Unit: US\$ in Dollars; NT\$ in Thousands)

Counterparties	Balance at Beginning of Year	Factoring During the Year	Amounts Collected During the Year	Balance at End of Year	Balance at End of Year of Advances Received	Interest Rates on Advances Received (%)	Retention for Factoring	Credit Line	Collateral
<u>2019</u>									
Standard Chartered	\$ 1,260 (Note 1)	\$ 2,541,087 (Note 2)	\$ 2,542,347 (Note 2)	\$ -	\$ -	-	\$ -	US\$40,200,000	-
KGI Bank	\$ 1,259 (Note 1)	\$ -	\$ 1,259 (Note 3)	\$ -	\$ -	-	\$ -	-	-
Taishin International Bank	\$ -	\$ 155,170 (Note 2)	\$ 155,170 (Note 3)	\$ -	\$ -	-	\$ -	US\$10,000,000	-

(Unit: US\$ in Dollars; NT\$ in Thousands)

Counterparties	Balance at Beginning of Year	Factoring During the Year	Amounts Collected During the Year	Balance at End of Year	Balance at End of Year of Advances Received	Interest Rates on Advances Received (%)	Retention for Factoring	Credit Line	Collateral
<u>2018</u>									
Standard Chartered	\$ -	\$ 2,116,262 (Note 2)	\$ 2,114,977 (Note 3)	\$ 1,285 (Note 4)	\$ -	-	\$ -	US\$40,200,000	-
KGI Bank	\$ 3,988 (Note 1)	\$ 11,784 (Note 2)	\$ 14,488 (Note 3)	\$ 1,284 (Note 4)	\$ -	-	\$ -	US\$ 300,000	-

Test-Rite concluded accounts receivable factoring agreements with Standard Chartered Bank, KGI Bank and Taishin International Bank. The agreements declared that the banks had no right of further recourse against Test-Rite. According to the agreement, Test-Rite should only be responsible for loss that resulted from business disputes. Among them, KGI Bank terminated the agreement in 2019.

Note 1: US\$41,809; US\$41,785; shown respectively from top to bottom of column.

Note 2: US\$84,323,447; US\$5,149,171; shown respectively from top to bottom of column.

Note 3: US\$84,365,256; US\$41,785; US\$5,149,171; shown respectively from top to bottom of column.

Note 4: US\$129,754.

Note 5: US\$68,859,612; US\$383,445; shown respectively from top to bottom of column.

Note 6: US\$68,817,803; US\$471,414; shown respectively from top to bottom of column.

Note 7: US\$41,809; US\$41,785; shown respectively from top to bottom of column.

The above credit lines may be used on a revolving basis.

10. INVENTORIES

	December 31	
	2019	2018
Merchandise - retail	\$ 3,685,068	\$ 3,856,010
Merchandise - trade	2,359,539	1,804,123
Construction land	316,836	119,469
Buildings and land held for sale	131,827	-
	<u>\$ 6,493,270</u>	<u>\$ 5,779,602</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2019 and 2018 was \$26,654,465 thousand and \$27,127,393 thousand, respectively.

The operating costs include reversals of inventory write-downs in the amount \$39,483 thousand and a loss on physical inventory count in the amount of \$44,654 thousand for the year ended December 31, 2019. The operating costs include reversals of inventory write-downs in the amount of \$13,547 thousand and a loss on physical inventory count in the amount of \$41,656 thousand for the year ended December 31, 2018. Previous write-downs have been reversed according to the result of inventory sale.

Merchandise - retail includes the balance of inventories of Test-Rite Retailing Co., Ltd., Test-Rite Retail, Test-Rite Home Service, Chung Cin Enterprise, Testrite Brand Agency and Test-Rite C&B and U-ME Enterprise Co., Ltd.

Merchandise - trade includes the balance of inventories of Test-Rite, Test-Rite Pte Ltd., Test-Rite Development GmbH, Test-Rite International (U.S.) Co., Ltd., Test Cin M&E Engineering, Hand-on Lighting Co., Ltd. and Test Cin International Co., Ltd.

Construction land and buildings and land held for sale include the balance of inventories of Chung Cin Enterprise. Construction land pledged as collateral for bank borrowings is set out in Notes 17 and 30 as of December 31, 2019.

11. FINANCIAL ASSETS AT FVTOCI

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Non-current</u>		
Investments in equity instruments at FVTOCI	\$ 45,427	\$ 49,213
Investments in debt instruments at FVTOCI	<u>8,642</u>	<u>-</u>
	<u>\$ 54,069</u>	<u>\$ 49,213</u>
<u>Non-current</u>		
Domestic investments - unlisted shares		
Grand Cathay Venture Capital II Co., Ltd.	\$ 42,701	\$ 46,518
Taiwan Finance Corporation	2,726	2,695
Foreign investments - unlisted shares		
Ningbo Anlian Tejie Supply China Management Co., Ltd.	<u>8,642</u>	<u>-</u>
	<u>\$ 54,069</u>	<u>\$ 49,213</u>

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

12. SUBSIDIARIES

Subsidiaries included in consolidated financial statements:

Investor	Subsidiaries	Main Businesses	% of Ownership		Remark
			2019	2018	
Test-Rite International Co., Ltd.	Fortune Miles Trading Inc.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Star Co., Ltd.	Investment holding company	-	100.00	Note 1
Test-Rite International Co., Ltd.	Test-Rite Retailing Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Trading Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Pte. Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Products (Hong Kong) Limited.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Int'l. (Australia) Pty. Limited.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Int'l. (Canada) Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite (UK) Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Development GMBH	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Upmaster International Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd. and Upmaster Co., Ltd.	Test-Rite International (U.S.) Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Viet Nam Co., Ltd.	Importation and exportation	95.00	95.00	Note 2
Test-Rite International Co., Ltd.	Lih Chiou Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Lih Teh International Co., Ltd.	Logistics services	100.00	100.00	
Test-Rite International Co., Ltd.	B&S Link Co., Ltd.	Providing information software and electronic information	100.00	100.00	
Test-Rite International Co., Ltd.	Fusion International Distribution, Inc.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Chung Cin Enterprise Co., Ltd.	Authorized builder to build dwelling, rental and sale of building	91.67	95.60	Note 3
Test-Rite International Co., Ltd. and Lih Chiou Co., Ltd.	Test-Rite Retail Co., Ltd.	Sale of house decoration hardware and construction materials	100.00	100.00	
Test-Rite International Co., Ltd.	International Art Enterprise Co., Ltd.	Trading of leisure goods	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Tony Construction Co., Ltd.	Build and civil engineering	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Test Cin M&E Engineering Co., Ltd.	Mechanical and electronic engineering	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Chung Cin Interior Design Construction Co., Ltd.	Interior design	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Viet Han Co., Ltd.	Importation and exportation	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	U-ME Enterprise Co., Ltd.	Cleaning service and land scape design	60.00	60.00	
Chung Cin Enterprise Co., Ltd.	Hand-on Lighting Co., Ltd.	Sale of electrical appliances	51.00	51.00	
Chung Cin Enterprise Co., Ltd.	Test Cin International Co., Ltd.	Sale of construction material	51.00	51.00	
Test-Rite Retail	Test-Rite Home Service Co., Ltd.	Interior design	100.00	100.00	
Test-Rite Retail	Hola Homefurnishings Co., Ltd.	Sale of furniture, bedclothes, kitchen equipment and fixtures	100.00	100.00	
Test-Rite Retail	Testrite Brand Agency Co., Ltd.	Sale of furniture, bedclothes, kitchen equipment and fixtures	100.00	100.00	
Test-Rite Retail	Test-Rite C&B Co., Ltd.	Sale of furniture, bedclothes, kitchen equipment and fixtures	100.00	100.00	
B&S Link Co., Ltd.	Home Intelligence Co., Ltd.	Other information provision services	100.00	100.00	

Note 1: Test Rite Star Co., Ltd. had completed the liquidation in September 2019.

Note 2: Test-Rite Vietnam Co., Ltd. resolved to dissolve in September 2015 and the liquidation date is September 30, 2015. However, the liquidation procedure has not yet finished as of December 31, 2019.

Note 3: On July 31, 2019, the Company's ownership percentage of Chung Cin Enterprise Co., Ltd. was reduced from 95.60% to 91.67% because the Company did not subscribe for all of the additional new shares issued by Chung Cin Enterprise Co., Ltd.

Note 4: All financial statements of subsidiaries included in the Group's consolidated financial statements have been audited for the years ended December 31, 2019 and 2018.

13. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2019	2018
Land	\$ 545,512	\$ 545,512
Buildings and improvements	3,307,424	3,496,331
Machinery and equipment	23,157	5,250
Transportation equipment	9,193	12,954
Furniture, fixtures and office equipment	70,004	117,459
Leasehold improvements	1,649,249	2,511,210
Molds and tools	17,863	19,296
Other equipment	120,147	145,486
Prepayments for property, plant and equipment	<u>747,783</u>	<u>33,014</u>
	<u>\$ 6,490,332</u>	<u>\$ 6,886,512</u>

	Land	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Molds and Tools	Other Equipment	Prepayments for Property, Plant and Equipment	Total
Cost										
Balance at January 1, 2018	\$ 545,512	\$ 2,541,423	\$ 26,751	\$ 60,148	\$ 834,812	\$ 8,592,776	\$ 44,129	\$ 908,129	\$ 38,097	\$13,591,777
Additions	-	1,773,458	-	4,616	34,563	10,960	4,879	14,706	272,895	2,116,077
Disposals	-	(5,973)	(37,384)	(4,907)	(61,097)	(623,394)	(4,276)	(99,873)	-	(836,904)
Reclassified	-	-	-	104	2,822	129,912	5,635	11,441	(269,740)	(119,826)
Effect of foreign currency exchange differences	-	(35,962)	38,747	(1,175)	3,198	(10,233)	(2,496)	(29,489)	(8,238)	(45,648)
Balance at December 31, 2018	<u>\$ 545,512</u>	<u>\$ 4,272,946</u>	<u>\$ 28,114</u>	<u>\$ 58,786</u>	<u>\$ 814,298</u>	<u>\$ 8,100,021</u>	<u>\$ 47,871</u>	<u>\$ 804,914</u>	<u>\$ 33,014</u>	<u>\$14,705,476</u>
Accumulated depreciation										
Balance at January 1, 2018	\$ -	\$ 691,055	\$ 24,388	\$ 45,238	\$ 707,061	\$ 5,748,516	\$ 24,492	\$ 732,668	\$ -	\$ 7,973,418
Depreciation expense	-	89,871	1,033	6,762	45,122	403,605	7,520	57,426	-	611,339
Disposals	-	(5,973)	(32,009)	(4,810)	(53,791)	(547,291)	(3,824)	(95,397)	-	(743,095)
Reclassified	-	-	2,648	(378)	(1,173)	2,908	-	(14,101)	-	(10,096)
Effect of foreign currency exchange differences	-	1,662	26,804	(980)	(379)	(18,927)	387	(21,169)	-	(12,602)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 776,615</u>	<u>\$ 22,864</u>	<u>\$ 45,832</u>	<u>\$ 696,840</u>	<u>\$ 5,588,811</u>	<u>\$ 28,575</u>	<u>\$ 659,427</u>	<u>\$ -</u>	<u>\$ 7,818,964</u>
Carrying amounts at December 31, 2018	<u>\$ 545,512</u>	<u>\$ 3,496,331</u>	<u>\$ 5,250</u>	<u>\$ 12,954</u>	<u>\$ 117,458</u>	<u>\$ 2,511,210</u>	<u>\$ 19,296</u>	<u>\$ 145,487</u>	<u>\$ 33,014</u>	<u>\$ 6,886,512</u>
Cost										
Balance at January 1, 2019	\$ 545,512	\$ 4,272,946	\$ 28,114	\$ 58,786	\$ 814,298	\$ 8,100,021	\$ 47,871	\$ 804,914	\$ 33,014	\$14,705,476
Additions	-	233	7,671	2,354	7,649	5,924	5,208	1,956	1,049,912	1,080,907
Disposals	-	(38,923)	(27,480)	(11,941)	(151,660)	(885,188)	(915)	(90,883)	-	(1,206,990)
Reclassified	-	(2,331)	63,474	201	14,399	(944,513)	1,410	21,874	(316,165)	(1,161,651)
Effect of foreign currency exchange differences	-	(62,641)	(1,958)	(1,489)	(2,144)	(6,813)	(527)	(2,627)	(18,978)	(97,177)
Balance at December 31, 2019	<u>\$ 545,512</u>	<u>\$ 4,169,284</u>	<u>\$ 69,821</u>	<u>\$ 47,911</u>	<u>\$ 682,542</u>	<u>\$ 6,269,431</u>	<u>\$ 53,047</u>	<u>\$ 735,234</u>	<u>\$ 747,783</u>	<u>\$13,320,565</u>
Accumulated depreciation										
Balance at January 1, 2019	\$ -	\$ 776,615	\$ 22,864	\$ 45,832	\$ 696,840	\$ 5,588,811	\$ 28,575	\$ 659,427	\$ -	\$ 7,818,964
Depreciation expense	-	125,883	979	5,747	42,623	303,969	8,256	57,418	-	544,875
Disposals	-	(38,923)	(15,443)	(10,768)	(138,268)	(855,746)	(899)	(110,129)	-	(1,170,176)
Reclassified	-	-	22,294	(1,289)	32	(589,266)	(394)	(15,498)	-	(584,121)
Effect of foreign currency exchange differences	-	(1,715)	(61)	(1,245)	(868)	6,864	(354)	(679)	-	1,942
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 861,860</u>	<u>\$ 30,633</u>	<u>\$ 38,277</u>	<u>\$ 600,359</u>	<u>\$ 4,454,632</u>	<u>\$ 35,184</u>	<u>\$ 590,539</u>	<u>\$ -</u>	<u>\$ 6,611,484</u>
Carrying amounts at December 31, 2019	<u>\$ 545,512</u>	<u>\$ 3,307,424</u>	<u>\$ 23,157</u>	<u>\$ 9,193</u>	<u>\$ 70,004</u>	<u>\$ 1,649,249</u>	<u>\$ 17,863</u>	<u>\$ 120,147</u>	<u>\$ 747,783</u>	<u>\$ 6,490,332</u>
Accumulated impairment										
Balance at January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impairment losses recognized	-	-	17,306	476	13,147	178,711	-	26,499	-	236,139
Effect of foreign currency exchange differences	-	-	(1,275)	(35)	(968)	(13,161)	-	(1,951)	-	(17,390)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,031</u>	<u>\$ 441</u>	<u>\$ 12,179</u>	<u>\$ 165,550</u>	<u>\$ -</u>	<u>\$ 24,548</u>	<u>\$ -</u>	<u>\$ 218,749</u>
Carrying amounts at December 31, 2019	<u>\$ 545,512</u>	<u>\$ 3,307,424</u>	<u>\$ 23,157</u>	<u>\$ 9,193</u>	<u>\$ 70,004</u>	<u>\$ 1,649,249</u>	<u>\$ 17,863</u>	<u>\$ 120,147</u>	<u>\$ 747,783</u>	<u>\$ 6,490,332</u>

The property, plant and equipment of the Group are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	35-60 years
Machinery and equipment	2-20 years
Transportation equipment	3-5 years
Furniture, fixtures and office equipment	3-10 years
Leasehold improvements	3-20 years
Molds and tools	2-10 years
Other equipment	3-17 years

In January 2019, Test-Rite International (U.S.) Co., Ltd. signed a purchase agreement with non-related parties to acquire land for building a warehouse. The amount of the acquisition was US\$22,521 thousand. The purchase price was determined based on a professional appraisal report.

In March 2018, Test-Rite Business Development Co., Ltd. signed a purchase agreement with non-related parties to acquire buildings and improvements. The amount of the acquisition was \$1,797,981 thousand. The purchase price was determined based on a professional appraisal report.

Hola Shanghai Retail and Trading Ltd., Hola Beijing Retailing and Trading Ltd. and Hola Shanghai Living Art Retailing Co., Ltd. had closed down a total of 13 retail stores, and the Group recognized an impairment loss and reorganization expense amounting to RMB82,868 thousand (approximately \$378,126 thousand) which was included in impairment loss and other losses separately.

Information about capitalized interest is as follows:

	For the Year Ended December 31, 2018
Capitalized interest	\$ 15,683
Capitalization rate	3.1233%-5.39%

Property, plant and equipment pledged as collateral for bank borrowings is set out in Notes 17 and 30.

14. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Office buildings	\$ 1,010,833
Stores	8,584,970
Others	<u>10,210</u>
	<u>\$ 9,606,013</u>

	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 382,059</u>
Depreciation charge for right-of-use assets	
Office buildings	\$ 286,320
Stores	1,720,845
Others	<u>6,388</u>
	<u>\$ 2,013,523</u>
 b. Lease liabilities - 2019	
	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 1,721,577</u>
Non-current	<u>\$ 7,348,041</u>
 Range of discount rate for lease liabilities was as follows:	
	December 31, 2019
Office buildings	1.30%-5.50%
Stores	1.30%-5.50%
Others	1.30%-4.05%

c. Other lease information

In order to cope with retail demand, the Group entered into a large number of lease arrangements for the purpose of renting commercial space for the establishment of retail stores. Lease terms are negotiated by the management of each business segment and include a wide range of payment terms. Variable payment terms are used for a variety of reasons, including margin control and operational flexibility.

Variable payment terms lead to the incurrence of higher rental costs for stores with higher sales. However, the use of variable payment terms helps to facilitate the management of margins across the Group.

Variable rental expenses are expected to continue to represent a similar proportion of retail store sales in future years.

15. GOODWILL

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 2,361,198	\$ 2,336,399
Additional amounts recognized from business combinations occurring during the year (Note 25)	-	50,400
Impairment losses recognized	-	(24,156)
Effect of foreign currency exchange differences	<u>(5,043)</u>	<u>(1,445)</u>
Balance at December 31	<u>\$ 2,356,155</u>	<u>\$ 2,361,198</u>

The carrying amount of goodwill was allocated to cash-generating units as follows:

	December 31	
	2019	2018
Retail	\$ 2,092,938	\$ 2,092,938
Trading	193,424	198,467
Others	<u>69,793</u>	<u>69,793</u>
	<u>\$ 2,356,155</u>	<u>\$ 2,361,198</u>

For the years ended December 31, 2019 and 2018, the Group evaluated the recoverable amounts of the above three cash-generating units, and the recoverable amounts were determined based on the value in use. The calculation of value in use was based on the cash flow projections in the financial budgets approved by management covering a 5-year period, and the growth rate used in preparing the budgets was based on the prediction of related industries.

16. OTHER INTANGIBLE ASSETS

	December 31	
	2019	2018
Computer software	\$ 166,885	\$ 163,068
Others	<u>54,096</u>	<u>66,917</u>
	<u>\$ 220,981</u>	<u>\$ 229,985</u>

	Computer Software	Others	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 656,950	\$ 103,356	\$ 760,306
Additions	76,408	1,450	77,858
Disposals	(187,825)	(3,295)	(191,120)
Reclassified	(60,974)	(1,324)	(62,298)
Foreign exchange translation differences	<u>296</u>	<u>(1,256)</u>	<u>(960)</u>
Balance at December 31, 2018	<u>\$ 484,855</u>	<u>\$ 98,931</u>	<u>\$ 583,786</u>

(Continued)

	Computer Software	Others	Total
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2018	\$ 497,633	\$ 27,965	\$ 525,598
Amortization expense	94,756	18,245	113,001
Disposals	(187,825)	(3,295)	(191,120)
Reclassified	(83,184)	(10,479)	(93,663)
Foreign exchange translation differences	<u>407</u>	<u>(422)</u>	<u>(15)</u>
Balance at December 31, 2018	<u>\$ 321,787</u>	<u>\$ 32,014</u>	<u>\$ 353,801</u>
Carrying amounts at December 31, 2018	<u>\$ 163,068</u>	<u>\$ 66,917</u>	<u>\$ 229,985</u>

Cost

Balance at January 1, 2019	\$ 484,855	\$ 98,931	\$ 583,786
Additions	29,972	-	29,972
Disposals	(91)	-	(91)
Reclassified	(9,094)	(2,914)	(12,008)
Foreign exchange translation differences	<u>(521)</u>	<u>(3,897)</u>	<u>(4,418)</u>
Balance at December 31, 2019	<u>\$ 505,121</u>	<u>\$ 92,120</u>	<u>\$ 597,241</u>

Accumulated amortization and impairment

Balance at January 1, 2019	\$ 321,787	\$ 32,014	\$ 353,801
Amortization expense	109,893	12,880	122,773
Disposals	(91)	-	(91)
Reclassified	(93,029)	(5,387)	(98,416)
Foreign exchange translation differences	<u>(324)</u>	<u>(1,483)</u>	<u>(1,807)</u>
Balance at December 31, 2019	<u>\$ 338,236</u>	<u>\$ 38,024</u>	<u>\$ 376,260</u>
Carrying amounts at December 31, 2019	<u>\$ 166,885</u>	<u>\$ 54,096</u>	<u>\$ 220,981</u>

(Concluded)

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

Computer software	3-5 years
Customer relationship	7-15 years
Outstanding service contracts	1.5 years

17. BORROWINGS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Short-term borrowings	<u>\$ 1,307,151</u>	<u>\$ 2,146,783</u>
Short-term bills payable	<u>\$ 49,978</u>	<u>\$ 99,966</u>
Current portion of long-term borrowings	<u>\$ 85,180</u>	<u>\$ 1,073,571</u>
Long-term borrowings	<u>\$ 9,424,773</u>	<u>\$ 6,094,520</u>

- a. Short-term borrowings as of December 31, 2019 and 2018 were as follows:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 1,307,151</u>	<u>\$ 2,146,783</u>

The range of weighted average effective interest rate on bank loans was 0.94%-3.25% and 0.92%-4.75% per annum as of December 31, 2019 and 2018, respectively.

- b. Short-term bills payable

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Commercial paper	\$ 50,000	\$ 100,000
Less: Unamortized discount on bills payable	<u>(22)</u>	<u>(34)</u>
	<u>\$ 49,978</u>	<u>\$ 99,966</u>

- c. Long-term borrowings

	<u>December 31</u>		
		<u>2019</u>	<u>2018</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Amount</u>
First Commercial Bank's syndicated loan			
Unsecured loan from June 17, 2019 to June 17, 2024. Authorized credit line of \$6,800 million. Principal due on June 17, 2024.	1.7895%- 3.0867%	\$ 4,573,375	\$ -
Unsecured loan from June 17, 2015 to June 17, 2020. Authorized credit line of \$4,480 million. On March 26, 2019, the Company paid the principal in full in advance.	-	-	2,113,718
Unsecured loan from June 24, 2015 to June 24, 2020. Authorized credit line of \$1,500 million. On March 18, 2019, the Company paid the principal in full in advance.	-	-	675,000

(Continued)

	December 31		
	2019		2018
	Interest Rate	Amount	Amount
First Commercial Bank			
Secured loan from May 15, 2019 to May 15, 2023. Authorized credit line of \$104 million. Principal due on May 15, 2023. The construction land of Chung Cin Enterprise Co., Ltd. were pledged as collateral (see Notes 10 and 30).	1.65%	\$ 104,000	\$ -
Unsecured loan from September 27, 2019 to September 27, 2022. Authorized credit line of \$500 million. Principal due in installments according to the bank's contracts.	1.50%	320,000	-
Unsecured loan from May 12, 2017 to May 12, 2020. Authorized credit line of \$500 million. On June 27, 2019, the Company paid the principal in full in advance.	-	-	350,000
Chang Hwa Bank			
Unsecured loan from August 8, 2019 to August 8, 2021. Authorized credit line of \$500 million. Principal due on August 8, 2021.	1.55%	500,000	300,000
Taishin International Bank			
Unsecured loan from June 26, 2019 to June 26, 2021. Authorized credit line of \$300 million. Principal due on June 26, 2021.	1.40%	300,000	300,000
KGI Bank			
Unsecured loan from September 25, 2019 to September 25, 2021. Authorized credit line of US\$8,000 thousand. Principal due on September 25, 2019.	2.9905%	241,080	245,864
Unsecured loan from December 2, 2019 to December 2, 2021. Authorized credit line of US\$80,000 thousand. Principal due on December 2, 2021.	1.14556%	80,000	-
Unsecured loan from September 25, 2019 to September 25, 2021. Authorized credit line of \$300 million. Principal due on September 25, 2021.	1.04556%	300,000	-
Unsecured loan from December 10, 2018 to December 10, 2020. Authorized credit line of \$300 million. On April 15, 2019, the Company paid the principal in full in advance.	-	-	276,597

(Continued)

	December 31		
	2019		2018
	Interest Rate	Amount	Amount
Taiwan Business Bank			
Unsecured loan from June 24, 2019 to June 24, 2022. Authorized credit line of \$600 million. Principal due on June 24, 2022.	1.468%- 1.607%	\$ 500,000	\$ 240,000
Export-Import Bank of the Republic of China			
Unsecured loan from May 16, 2019 to May 16, 2025. Authorized credit line of \$680 million. Principal due in installments according to the bank's contracts.	1.1035%	480,000	-
Unsecured loan from December 6, 2019 to December 6, 2025. Authorized credit line of \$200 million. Principal due in installments according to the bank's contracts.	1.2091%	72,000	-
O-Bank			
Secured loan from April 20, 2018 to April 19, 2023. Authorized credit line of US\$20 million. Principal due in installments according to the bank's contracts. The property, plant and equipment of Test-Rite Business Development Co., Ltd. were pledged as collateral (see Notes 13 and 30).	3.70%	555,448	614,660
Unsecured loan from March 14, 2018 to March 13, 2021. Authorized credit line of \$400 million. Principal due on March 13, 2021.	1.5519%	400,000	200,000
Cathay United Bank			
Unsecured loan from October 24, 2018 to October 24, 2020. Authorized credit line of \$200 million. On January 18, 2019, the Company paid the principal in full in advance.	-	-	200,000
Hua Nan Bank			
Unsecured loan from November 27, 2019 to November 27, 2022. Authorized credit line of \$300 million. Principal due on November 27, 2022.	1.51811%	150,000	-
Unsecured loan from December 27, 2018 to December 25, 2020. Authorized credit line of \$300 million. On November 25, 2019, the Company paid the principal in full in advance.	-	-	300,000

(Continued)

	December 31		
	2019		2018
	Interest Rate	Amount	Amount
SinoPac Bank			
Unsecured loan from November 21, 2019 to November 30, 2021. Authorized credit line of US\$30 million. Principal due on November 30, 2021.	2.7484%- 2.7696%	\$ 602,700	\$ -
Unsecured loan from November 21, 2019 to November 30, 2021. Authorized credit line of US\$10 thousand. Principal due on November 30, 2021.	3.21013%	301,350	-
Unsecured loan from December 19, 2018 to December 19, 2020. Authorized credit line of US\$30 million. On January 18, 2019, the Company paid the principal in full in advance.	-	-	860,524
Unsecured loan from December 19, 2018 to December 19, 2020. Authorized credit line of US\$10 thousand. On October 9, 2019, the Company paid the principal in full in advance.	-	-	307,330
Mega International Commercial Bank			
Unsecured loan from July 19, 2019 to July 19, 2021. Authorized credit line of \$70,000 thousand. Principal due on July 19, 2021.	1.20%	30,000	-
E.SUN Bank			
Unsecured loan from December 20, 2017 to December 20, 2019. Authorized credit line of US\$6 thousand. On January 4, 2019, the Company paid the principal in full in advance.	-	-	184,398
Less current portion		<u>(85,180)</u>	<u>(1,073,571)</u>
		<u>\$ 9,424,773</u>	<u>\$ 6,094,520</u> (Concluded)

Test-Rite promised to maintain the following financial covenants according to the loan agreements as of December 31, 2019:

1) First Commercial Bank Syndicated Loan

- a) For the Financial Liabilities Ratio, Test-Rite shall maintain a ratio of Financial Liabilities to Tangible Net Worth of no more than 1.5 to 1.
- b) For the Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.
- c) For the EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to Interest Expense of greater than 2.5 to 1.
- d) For the Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of no less than \$5,200,000 thousand.

- e) The calculations of the ratios are based on the Company's stand-alone financial statements for each year ended December 31.
- 2) SinoPac Bank Loan
- a) For the Financial Liabilities Ratio, Test-Rite shall maintain a ratio of Financial Liabilities to Tangible Net Worth of no more than 1.5 to 1.
 - b) For the Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.
 - c) For the EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to Interest Expense of greater than 2.5 to 1.
 - d) For the Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of no less than \$5,200,000 thousand.
 - e) The calculations of the ratios are based on the Company's stand-alone financial statements for each year ended December 31.
- 3) Test-Rite Retail promised to maintain the following financial covenants according to the loan agreements with O-Bank:
- a) For the Total Liabilities Ratio, Test-Rite Retail shall maintain a ratio of Liabilities (short-term borrowings + current portion of long-term borrowings + long-term borrowings) to Tangible Net Worth of no more than 2 to 1.
 - b) For the Current Ratio, Test-Rite Retail shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.
 - c) For the EBITDA Ratio, Test-Rite Retail shall maintain a ratio of EBITDA to Interest Expense of greater than 3 to 1.
 - d) The calculations of the ratios are based on the stand-alone financial statements of Test-Rite Retail for each year ended December 31.
- 4) Test-Rite Retail promised to maintain the following financial covenants according to the loan agreements with Taishin International Bank:
- a) For the Total Liabilities Ratio, Test-Rite Retail shall maintain a ratio of Total Liabilities to Total Assets of no more than 2 to 1.
 - b) For the Current Ratio, Test-Rite Retail shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.
 - c) For the EBITDA Ratio, Test-Rite Retail shall maintain a ratio of EBITDA to Interest Expense of greater than 3 to 1.
 - d) The calculations of the ratios are based on the stand-alone financial statements of Test-Rite Retail for each year ended December 31.

During the year ended December 31 2019, the Group breached certain terms of its long-term loan arrangement of First Commercial Bank’s syndicated loan, which are primarily related to the interest coverage ratio of the Group. At December 31, 2019, the carrying amount of the bank loan was \$4,573,375 thousand. According to the syndicated loan agreement, the Group is required to improve certain financial ratios in the next test if the Group is not in compliance with the financial covenants at first test, however, the annual interest rate should be increased by an additional 0.1 percentage point. Therefore, the lender has no right to demand immediate repayment at the end of reporting period.

During the year ended December 31 2019, the Group breached certain terms of its long-term loan arrangement of SinoPac Bank loan, which are primarily related to the interest coverage ratio of the Group. At December 31, 2019, the carrying amount of the bank loan was \$602,700 thousand. According to the loan agreement, the Group is required to maintain certain financial ratios. If the Group is not in compliance with the financial covenants, the Group should pay additional interest on the annual interest rate. Therefore, the lender has no right to demand immediate repayment at the end of reporting period.

18. PROVISIONS

	<u>December 31</u>	
	2019	2018
Employee benefits (included in other payables)	<u>\$ 7,726</u>	<u>\$ 7,136</u>

The provision for employee benefits represents annual leave and vested long service leave entitlements accrued and compensation claims made by employees.

19. OTHER PAYABLES

	<u>December 31</u>	
	2019	2018
Accrued expenses	\$ 1,183,207	\$ 1,199,967
Payable for purchase of equipment	73,228	94,598
Bonuses payable to employees	3,960	10,129
Bonuses payable to directors and supervisors	3,996	15,924
Allowance of sales returns and discounts	107,222	44,109
Payable for employee benefits	7,726	7,136
Others	<u>251,212</u>	<u>249,189</u>
	<u>\$ 1,630,551</u>	<u>\$ 1,621,052</u>

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Group in accordance with the Labor Standards Law is operated by the government of the Republic of China (“ROC”). Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the “Bureau”); the Group has no right to influence the investment policy and strategy.

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

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 496,785	\$ 452,651
Fair value of plan assets	<u>(365,321)</u>	<u>(343,821)</u>
	131,464	108,830
Defined benefit asset (included in other non-current assets)	<u>22,961</u>	<u>21,755</u>
Net defined benefit liability (included in net defined benefit liabilities - non-current)	<u>\$ 154,425</u>	<u>\$ 130,585</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2018	<u>\$ 428,447</u>	<u>\$ (300,009)</u>	<u>\$ 128,438</u>
Service cost			
Current service cost	2,599	-	2,599
Net interest expense	<u>5,942</u>	<u>(3,917)</u>	<u>2,025</u>
Recognized in profit or loss	<u>8,541</u>	<u>(3,917)</u>	<u>4,624</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(7,618)	(7,618)
Actuarial loss - changes in financial assumptions	6,407	-	6,407
Actuarial loss - experience adjustments	(1,258)	380	(878)
Actuarial loss - changes in demographic assumptions	<u>28,310</u>	<u>-</u>	<u>28,310</u>
Recognized in other comprehensive income	<u>33,459</u>	<u>(7,238)</u>	<u>26,221</u>
Contributions from the employer	-	(38,659)	(38,659)
Benefits paid	(17,193)	6,130	(11,063)
Others	<u>(603)</u>	<u>(128)</u>	<u>(731)</u>
Balance at December 31, 2018	<u>452,651</u>	<u>(343,821)</u>	<u>108,830</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Service cost			
Current service cost	\$ 2,494	\$ -	\$ 2,494
Net interest expense	<u>5,761</u>	<u>(3,984)</u>	<u>1,777</u>
Recognized in profit or loss	<u>8,255</u>	<u>(3,984)</u>	<u>4,271</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(9,743)	(9,743)
Actuarial loss - changes in financial assumptions	29,035	-	29,305
Actuarial loss - experience adjustments	4,083	366	4,449
Actuarial loss - changes in demographic assumptions	<u>9,561</u>	<u>-</u>	<u>9,561</u>
Recognized in other comprehensive income	<u>42,949</u>	<u>(9,377)</u>	<u>33,572</u>
Contributions from the employer	-	(14,039)	(14,039)
Benefits paid	(5,170)	5,170	-
Others	<u>(1,900)</u>	<u>730</u>	<u>(1,170)</u>
Balance at December 31, 2019	<u>\$ 496,785</u>	<u>\$ (365,321)</u>	<u>\$ 131,464</u> (Concluded)

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

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Operating expenses	<u>\$ 4,271</u>	<u>\$ 4,624</u>

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

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

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

	December 31	
	2019	2018
Discount rate	0.75%-1.87%	1.00%-1.87%
Expected rate of salary increase	0.00%-3.00%	0.00%-3.00%

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

	December 31	
	2019	2018
Discount rate		
0.25%-0.5% increase	<u>\$ (14,257)</u>	<u>\$ (13,441)</u>
0.25%-0.5% decrease	<u>\$ 14,868</u>	<u>\$ 14,024</u>
Expected rate of salary increase		
0.25%-1% increase	<u>\$ 16,383</u>	<u>\$ 15,703</u>
0.25%-1% decrease	<u>\$ (15,520)</u>	<u>\$ (14,841)</u>

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

	December 31	
	2019	2018
Expected contributions to the plan for the next year	<u>\$ 10,152</u>	<u>\$ 11,190</u>
Average duration of the defined benefit obligation	9.80-19.90 years	10.80-17.80 years

21. EQUITY

a. Share capital

	December 31	
	2019	2018
Number of shares authorized (in thousands)	<u>750,000</u>	<u>750,000</u>
Shares authorized	<u>\$ 750,000</u>	<u>\$ 7,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>509,888</u>	<u>509,888</u>
Shares issued	<u>\$ 5,098,875</u>	<u>\$ 5,098,875</u>

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

As of December 31, 2019, Test-Rite's outstanding share capital amounted to \$5,098,875 thousand.

b. Capital surplus

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of ordinary shares	\$ 352,227	\$ 647,962
<u>May only be used to offset a deficit (2)</u>		
Changes in percentage of ownership interests in subsidiaries	<u>857</u>	<u>-</u>
	<u>\$ 353,084</u>	<u>\$ 647,962</u>

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. Above dividends, legal reserve and capital surplus which is distributed by cash, the Company authorizes the distribution after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 26-2.

The dividends policy of Test-Rite is as follows:

The Company's dividends policy shall consider the Company's business diversification, capital needs for future operational plan, along with the shareholder's benefits, and the Company's long-term financial plans. The shareholder's dividends are appropriated based on accumulated distributable earnings, which shall not be lower than 50% of the distributable earnings for the periods and the cash dividends shall not be less than 10% of the shareholders dividend. However, if cash dividends per share are less than \$0.1, share dividends could be all distributed instead of cash dividends.

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

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

The appropriations of earnings for 2018 and 2017 approved in the shareholders’ meetings on June 20, 2019 and June 19, 2018, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Legal reserve	\$ 40,649	\$ 78,730	\$ -	\$ -
Special reserve	60,976	14,058	-	-
Cash dividends	356,921	611,865	0.70	1.20

The Company’s shareholders also resolved to issue cash dividends from capital surplus of \$295,735 thousand in the shareholders’ meeting on June 20, 2018.

The appropriation of earnings for 2019 had been proposed by the Company’s board of directors on March 25, 2020. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 7,984	\$ -
Special reserve	76,249	-

The Company’s board of directors had also proposed to issue cash dividends from capital surplus of \$351,863 thousand on March 25, 2020.

The appropriation of earnings for 2019 is subject to the resolution of the shareholders’ meeting to be held on June 17, 2020.

d. Others equity items

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

Exchange differences relating to the translation of the results and net assets of the Company’s foreign operations from their functional currencies to the Company’s presentation currency (New Taiwan dollars) were recognized directly in other comprehensive income and accumulated in a foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of foreign operations.

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

Unrealized gain (loss) on financial assets at FVTOCI was accumulated gains and losses recognized in other comprehensive income when investments in equity instruments at FVTOCI were subsequently measured at fair value. Unrealized gain (loss) on financial assets at FVTOCI was not reclassified to other gains and losses when those financial instruments were disposed of.

e. Treasury shares

Purpose of Buy-back	Shares Transferred to Employees (In Thousands of Shares)
Number of shares at January 1, 2019	-
Increased during the year	<u>14,306</u>
Number of shares at December 31, 2019	<u><u>14,306</u></u>

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

22. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from sale of goods	\$ 35,406,950	\$ 37,457,384
Construction contract revenue	1,022,954	1,052,665
Rental income	544,499	611,214
Revenue from sales of real estate	7,848	110,867
Other operating revenue	<u>1,078,562</u>	<u>665,820</u>
	<u>\$ 38,060,813</u>	<u>\$ 39,897,950</u>

a. Contract balances

	December 31	
	2019	2018
Contract assets		
Properties construction	<u>\$ 216,962</u>	<u>\$ 204,203</u>
Contract liabilities		
Properties construction	\$ 20,901	\$ 656
Customer loyalty programs	<u>51,165</u>	<u>65,160</u>
	<u>\$ 72,066</u>	<u>\$ 65,816</u>

b. Disaggregation of revenue

2019

	Reportable Segments			
	Retail	Trading	Construction	Total
Type of goods or services				
Sale of goods	\$ 16,839,845	\$ 18,429,915	\$ 147,422	\$ 35,417,182
Construction contracts	456,100	-	558,396	1,014,496
Rental income	351,366	2,815	190,318	544,499
Revenue from sales of real estate	-	-	7,848	7,848
Other operating revenue	<u>304,885</u>	<u>717,421</u>	<u>54,482</u>	<u>1,076,788</u>
	<u>\$ 17,952,196</u>	<u>\$ 19,150,151</u>	<u>\$ 958,466</u>	<u>\$ 38,060,813</u>

2018

	Reportable Segments			
	Retail	Trading	Construction	Total
Type of goods or services				
Sale of goods	\$ 18,629,850	\$ 18,720,559	\$ 106,975	\$ 37,457,384
Construction contracts	424,884	-	627,781	1,052,665
Rental income	403,389	3,943	203,882	611,214
Revenue from sales of real estate	-	-	110,867	110,867
Other operating revenue	<u>282,588</u>	<u>322,182</u>	<u>61,050</u>	<u>665,820</u>
	<u>\$ 19,740,711</u>	<u>\$ 19,046,684</u>	<u>\$ 1,110,555</u>	<u>\$ 39,897,950</u>

23. INCOME TAX

a. Major components of income tax expense (benefit) recognized in profit or loss:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current period	\$ 101,253	\$ 171,065
Income tax on unappropriated earnings	-	7,759
Unrecognized loss carryforwards	-	(3,269)
Adjustments for deferred tax assets	(123,994)	(122,080)
Adjustments for prior periods	<u>2,590</u>	<u>(9,915)</u>
	<u>(20,151)</u>	<u>43,560</u>
Deferred tax		
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>(116,424)</u>
Income tax benefit recognized in profit or loss	<u>\$ (20,151)</u>	<u>\$ (72,864)</u>

b. A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before tax		
Income tax expense calculated at the statutory rate	\$ 122,847	\$ 171,779
Decrease in tax resulting from other adjustments of permanent differences		
Tax-exempt income	(21,594)	(714)
Adjustments to deferred tax assets	(123,994)	(122,080)
Income tax on unappropriated earnings	-	7,759
Unrecognized loss carryforwards	-	(3,269)
Adjustments for prior periods	<u>2,590</u>	<u>(9,915)</u>
	<u>(20,151)</u>	<u>43,560</u>
Effect of tax rate changes	<u>-</u>	<u>(116,424)</u>
Income tax benefit recognized in profit or loss	<u>\$ (20,151)</u>	<u>\$ (72,864)</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

c. Deferred tax assets and liabilities

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax assets</u>		
Temporary difference		
Share of losses of subsidiaries accounted for using the equity method	\$ 949,053	\$ 702,608
Unrealized warranty reserve	4,989	7,905
Unrealized loss on inventories	27,792	31,620
Allowance for doubtful accounts	12,777	11,865
Allowance for sales returns and discounts	45,554	11,646
Allowance for compensation losses	15,530	11,516
Financial assets at FVTOCI	6,380	5,423
Others	<u>483,240</u>	<u>653,820</u>
	<u>\$ 1,545,315</u>	<u>\$ 1,436,403</u>
<u>Deferred tax liabilities</u>		
Temporary difference		
Defined benefit obligations	\$ 2,527	\$ 2,465
Intangible assets	<u>15,691</u>	<u>18,442</u>
	<u>\$ 18,218</u>	<u>\$ 20,907</u>

d. Income tax assessments

The income tax returns of Test-Rite for years through 2017 have been examined and approved by the tax authority.

24. EARNINGS PER SHARE

For the years ended December 31, 2019 and 2018, the amounts of earnings per share were calculated as follows:

	2019		
	Amounts (Numerator) Parent Co. Shareholders Income After Tax	Shares (Denominator) (In Thousands)	EPS (NT\$) Parent Co. Shareholders Income After Tax
Basic earnings per share			
Net income to shareholders of common shares	\$ 100,355	503,123	<u>\$ 0.20</u>
The effects of dilutive potential common shares			
Compensation to employees (Note)	<u>-</u>	<u>-</u>	
Diluted earnings per share			
Net income to shareholders of common shares and the effects of potential common shares	<u>\$ 100,355</u>	<u>503,123</u>	<u>\$ 0.20</u>
	2018		
	Amounts (Numerator) Parent Co. Shareholders Income After Tax	Shares (Denominator) (In Thousands)	EPS (NT\$) Parent Co. Shareholders Income After Tax
Basic earnings per share			
Net income to shareholders of common shares	\$ 406,493	509,888	<u>\$ 0.80</u>
The effects of dilutive potential common shares			
Compensation to employees	<u>-</u>	<u>189</u>	
Diluted earnings per share			
Net income to shareholders of common shares and the effects of potential common shares	<u>\$ 406,493</u>	<u>510,077</u>	<u>\$ 0.80</u>

If Test-Rite offered to settle the compensation or bonuses paid to employees in cash or shares, Test-Rite assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

Note: Since Test-Rite did not earn profit before tax in 2019, the compensation to employees was not estimated in 2019.

25. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
U-ME Enterprise Co., Ltd.	Cleaning service	January 1, 2018	60	<u>\$ 65,000</u>
Hand-On Lighting Co., Ltd.	Sale of electrical appliances	September 3, 2018	51	<u>\$ 5,253</u>

On January 1, 2018, the Group acquired a 60% interest of U-ME Enterprise Co., Ltd., via cash of \$65,000 thousand through a third party in order to continue the expansion of the Group's business.

On September 3, 2018, the Group acquired a 51% interest of Hand-On Lighting Co., Ltd., via cash of \$5,253 thousand through a third party in order to continue the expansion of the Group's business.

b. Consideration transferred

	U-ME Enterprise Co., Ltd.	Hand-On Lighting Co., Ltd.
Cash	<u>\$ 65,000</u>	<u>\$ 5,253</u>

c. Assets acquired and liabilities assumed at the date of acquisition

	U-ME Enterprise Co., Ltd.	Hand-On Lighting Co., Ltd.
Current assets		
Cash and cash equivalents	\$ 834	\$ 8,671
Accounts receivable	9,986	9,613
Inventories	4,632	985
Prepayments	10	2,047
Non-current assets		
Property, plant and equipment	6,648	620
Refundable deposits	1,488	-
Other intangible assets	5,600	-
Goodwill	50,400	-
Other non-current assets	-	4
Current liabilities		
Notes payable	(1,483)	(857)
Accounts payable	-	(3,869)
Current tax liabilities	(144)	(22)
Other payables	(929)	(6,603)
Other current liabilities	-	(5)
Long-term borrowings	<u>(6,042)</u>	<u>-</u>
	<u>\$ 71,000</u>	<u>\$ 10,584</u>

d. Non-controlling interests

The non-controlling interest (a 40% ownership interest in U-ME Enterprise Co., Ltd.) recognized at the acquisition date was measured by reference to the net assets of the non-controlling interest with the amount of \$6,000 thousand.

The non-controlling interest (a 49% ownership interest in Hand-On Lighting Co., Ltd.) recognized at the acquisition date was measured by reference to the net assets of the non-controlling interest with the amount of \$5,331 thousand.

e. Goodwill recognized on acquisitions

	U-ME Enterprise Co., Ltd.	Hand-On Lighting Co., Ltd.
Consideration transferred	\$ 65,000	\$ 5,253
Plus: Non-controlling interests	6,000	5,331
Less: Fair value of identifiable net assets acquired	<u>(20,600)</u>	<u>(10,880)</u>
 Goodwill recognized on acquisitions (gain from bargain purchase)	 <u>\$ 50,400</u>	 <u>\$ (296)</u>

The goodwill recognized in the acquisitions of U-ME Enterprise Co., Ltd. mainly represents the control premium. In addition, the consideration paid for the combinations effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforces of U-ME Enterprise Co., Ltd. These benefits are not recognized separately because they do not meet the recognition criteria for identifiable intangible assets.

f. Net cash outflow (inflow) on acquisition of subsidiaries

	U-ME Enterprise Co., Ltd.	Hand-On Lighting Co., Ltd.
Consideration paid in cash	\$ 65,000	\$ 5,253
Less: Cash and cash equivalent balances acquired	<u>(834)</u>	<u>(8,671)</u>
	<u>\$ 64,166</u>	<u>\$ (3,418)</u>

26. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

a. Personnel, depreciation, and amortization expenses for the years ended December 31, 2019 and 2018 were summarized as follows:

Expense Item	Function	2019			2018		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses							
Salaries		\$ 44,807	\$ 3,421,744	\$ 3,466,551	\$ 46,745	\$ 3,511,350	\$ 3,558,095
Labor insurance and health insurance		4,514	261,547	266,061	4,521	249,396	253,917
Pension cost		2,654	160,925	163,579	2,551	187,881	190,432
Others		5,005	277,885	282,890	4,393	311,385	315,778
Depreciation expenses		335,467	2,222,931	2,558,398	60,769	550,570	611,339
Amortization expenses		68	122,705	122,773	-	113,001	113,001

As of December 31, 2019 and 2018, the Group had 4,916 and 5,539 employees, respectively.

b. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. Since the Company did not profit before the tax in 2019, the employees' compensation and remuneration of directors and supervisors was not estimated in 2019. The employees' compensation and remuneration of directors and supervisors for the year ended December 31, 2018, which have been approved by the Company's board of directors on March 26, 2019, were as follows:

Accrual rate

	For the Year Ended December 31, 2019
Employees' compensation	1.0%
Remuneration of directors and supervisors	1.5%

Amount

	For the Year Ended December 31 Cash
Employees' compensation	\$ 2,345
Remuneration of directors and supervisors	3,517

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

27. CAPITAL MANAGEMENT

The objective of the Company's capital management is to ensure it has the necessary financial resource and operational plan so that it can cope with the next twelve months working capital requirements, capital expenditures and dividends spending.

28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

Names and relationships of the related parties are outlined as follows:

Name	Relationship
Tsai Wang Enterprise Company Limited	Entity controlled by key management personnel
Li Xiong Co., Ltd.	Entity controlled by key management personnel
Saturn Intelligence (CA) Ltd.	Entity controlled by key management personnel
Saturn Intelligence (AR) Ltd.	Entity controlled by key management personnel
Saturn Intelligence (CN) Ltd.	Entity controlled by key management personnel
Up master Investment Co., Ltd.	Entity controlled by key management personnel
Tsai Ye Enterprise Company Limited	Entity controlled by key management personnel
X-Cel Relationship Management Co., Ltd.	Entity controlled by key management personnel
Judy Lee	Chairman of Test-Rite
Tony Ho	Related party in substance
Li Heng Lee	Related party in substance

a. Operating transactions

	Sales Revenue	
	For the Year Ended December 31	
	2019	2018
Entity controlled by key management personnel	\$ <u>9,517</u>	\$ <u>-</u>

	Construction Contract Revenue	
	For the Year Ended December 31	
	2019	2018
Entity controlled by key management personnel	\$ <u>22,664</u>	\$ <u>30,151</u>

The sales price and terms of transactions with related parties were decided on the contracts which were agreed by both sides.

	Revenue from Sale of Real Estate	
	For the Year Ended December 31	
	2019	2018
Related party in substance	\$ <u>7,848</u>	\$ <u>14,782</u>

The sales price of transactions with related parties were similar to those for third parties.

	Refundable Deposits Paid	
	December 31	
	2019	2018
Tsai Wang Enterprise Company Limited	\$ <u>125,000</u>	\$ <u>125,000</u>

The transaction conditions of related parties are almost the same as non-related parties.

Lease arrangements

Line Item	Related Party Category/Name	December 31	
		2019	2018
Lease liabilities	Tsai Wang Enterprise Company Limited	\$ 999,469	\$ -
	Entity controlled by key management personnel	514,685	-
	Chairman of Test-Rite	<u>1,203</u>	<u>-</u>
		<u>\$ 1,515,357</u>	<u>\$ -</u>
		For the Year Ended December 31	
	Related Party Category/Name	2019	2018
<u>Interest expense</u>			
	Entity controlled by key management personnel	\$ 35,757	\$ -
	Chairman of Test-Rite	<u>18</u>	<u>-</u>
		<u>\$ 35,775</u>	<u>\$ -</u>
<u>Lease expense</u>			
	Tsai Wang Enterprise Company Limited	\$ -	\$ 331,991
	Entity controlled by key management personnel	<u>-</u>	<u>59,786</u>
		<u>\$ -</u>	<u>\$ 391,797</u>

b. Endorsements or guarantees

Endorsements or guarantees that Test-Rite provided to subsidiaries were summarized in Note 31-2.

As of December 31, 2019, short-term borrowing of \$146,155 thousand was guaranteed by the chairman of Test-Rite (Judy Lee) and related party in substance (Tony Ho), short-term borrowing of \$235,355 thousand was guaranteed by the chairman of Test-Rite (Judy Lee), short-term borrowing of \$603,000 thousand was guaranteed by related party in substance (Tony Ho).

As of December 31, 2019, long-term borrowing of \$104,000 thousand was guaranteed by the chairman of Test-Rite (Judy Lee), and related party in substance (Tony Ho), long-term borrowing of \$5,476,075 thousand was guaranteed by the chairman of Test-Rite (Judy Lee), and long-term borrowing of \$2,280,000 thousand was guaranteed by related party in substance (Tony Ho).

As of December 31, 2019, short-term bill payable of \$49,978 thousand was guaranteed by related party in substance (Tony Ho).

As of December 31, 2018, short-term borrowing of \$70,120 thousand was guaranteed by the chairman of Test-Rite (Judy Lee) and related party in substance (Tony Ho), short-term borrowing of \$122,709 thousand was guaranteed by the chairman of Test-Rite (Judy Lee), short-term borrowing of \$811,000 thousand was guaranteed by related party in substance (Tony Ho).

As of December 31, 2018, long-term borrowing of \$4,110,237 thousand was guaranteed by the chairman of Test-Rite (Judy Lee); and long-term borrowing of \$1,890,000 thousand was guaranteed by related party in substance (Tony Ho).

As of December 31, 2018, short-term bill payable of \$99,966 thousand was guaranteed by related party in substance (Tony Ho).

c. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 151,709	\$ 188,674
Post-employment benefits	<u>4,038</u>	<u>12,354</u>
	<u>\$ 155,747</u>	<u>\$ 201,028</u>

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

29. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Fair value of financial instruments not carried at fair value

The management considers that the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair value. As of December 31, 2019 and 2018, the carrying amounts approximate their fair value.

b. Fair value measurements recognized in the consolidated balance sheets

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 30,138	\$ -	\$ 30,138
Non-derivative financial assets	<u>\$ 590,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 590,594</u>
Financial liabilities at FVTPL				
Derivatives financial assets	\$ -	\$ 321	\$ -	\$ 321
Financial assets at FVTOCI				
Investments in equity instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,069</u>	<u>\$ 54,069</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 32,757	\$ -	\$ 32,757
Non-derivative financial assets	<u>\$ 270,374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,374</u>
Financial liabilities at FVTPL				
Derivatives financial assets	\$ -	\$ 16,017	\$ -	\$ 16,017
Financial assets at FVTOCI				
Investments in equity instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,213</u>	<u>\$ 49,213</u>

There were no transfers between Level 1 and 2 in the current and prior periods.

Financial Risk Management Objectives and Policies

The Group's major financial instruments include equity and debt investments, borrowings, trade receivables and trade payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments for speculative purposes.

a. Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates. The Group entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward foreign exchange contracts to hedge the exchange rate risk arising on the export.

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

1) Foreign currency risk

Several subsidiaries of the Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (see Note 32).

The sensitivity analysis included only outstanding foreign currency denominated monetary items, and the effect on profit and loss by their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in post-tax profit and other equity associated with New Taiwan dollars strengthen 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on post-tax profit and other equity and the balances below would be negative.

	<u>USD Impact</u>		<u>EUR Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Equity	\$ <u>1,499</u>	\$ <u>(21,359)</u>	\$ <u>114</u>	\$ <u>134</u>

2) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at floating interest rates. The risk is managed by the Group by maintaining floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Group's interest rate risk arises primarily from fixed revenue investment and floating interest rate borrowings.

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

	December 31	
	2019	2018
Cash flow interest rate risk		
Financial assets	\$ 473,722	\$ 359,241
Financial liabilities	10,817,104	9,314,874

The sensitivity analyses were calculated by a change in fair value of the fixed interest rates financial assets and liabilities at the end of the reporting period.

If interest rates at end of the reporting period were higher by 1% and all other variables were held constant, the Group's cash outflow for the years ended December 31, 2019 and 2018 would have been increased by \$103,434 thousand and \$89,556 thousand, respectively.

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from:

- 1) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- 2) The amount of contingent liabilities in relation to financial guarantee issued by the Group.

The Group direct against the counterparties which deal with materially to providing sufficient collateral or other right pledged, so that it could minimize credit risk effectively. Management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group did transactions with a large number of customers among different industries and geography area. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

c. Liquidity risk

The Group manages and contains sufficient working capital to support the operations so there is no liquidity risk of shortage of funds by the maturity date of implementing obligation to the contracts, reduce the impact on fluctuation of cash flow.

The Group's non-derivative financial liabilities with their agreed repayment period were as follows:

	December 31, 2019			
	1 Year	2-3 Years	3+ Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 8,033,205	\$ -	\$ 209,262	\$ 8,242,467
Fixed interest rate liabilities	49,978	-	-	49,978
Variable interest rate liabilities	1,392,331	3,946,705	5,478,068	10,817,104
Lease liabilities	<u>1,721,577</u>	<u>3,089,087</u>	<u>4,258,954</u>	<u>9,069,618</u>
	<u>\$ 11,197,091</u>	<u>\$ 7,035,792</u>	<u>\$ 9,946,284</u>	<u>\$ 28,179,167</u>
	December 31, 2018			
	1 Year	2-3 Years	3+ Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 7,779,257	\$ -	\$ 225,527	\$ 8,004,784
Fixed interest rate liabilities	99,966	-	-	99,966
Variable interest rate liabilities	<u>3,220,354</u>	<u>5,627,378</u>	<u>467,142</u>	<u>9,314,874</u>
	<u>\$ 11,099,577</u>	<u>\$ 5,627,378</u>	<u>\$ 692,669</u>	<u>\$ 17,419,624</u>

30. PLEDGED ASSETS

	December 31	
	2019	2018
Property, plant and equipment (see Notes 13 and 17)	\$ 1,626,134	\$ 1,725,840
Time deposits (see Notes 6 and 8)	461,446	236,640
Construction (see Notes 10 and 17)	<u>149,559</u>	<u>-</u>
	<u>\$ 2,237,139</u>	<u>\$ 1,962,480</u>

31. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's, Test-Rite Retail's and Testrite Brand Agency's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2019 and 2018 were US\$1,401 thousand and US\$1,949 thousand, respectively.

Test-Rite's, Test-Rite Retail's and Testrite Brand Agency's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2019 and 2018 were both EUR19 thousand.

Endorsements/guarantees provided: As of December 31, 2019 and 2018, endorsements or guarantees that the Company provided to its business related legal entities and subsidiaries were summarized as follows:

(Unit: Foreign Currencies/New Taiwan Dollars in Thousands)

	December 31	
	2019	2018
Endorsements		
Test-Rite Trading Co., Ltd. and Test-Rite Retailing Co., Ltd.	US\$ 18,000	US\$ 31,000
Test-Rite Products Corp.	US\$ 7,000	US\$ 10,600
Test-Rite Retailing Co., Ltd.	US\$ 15,000	US\$ 10,000
Hola Shanghai Retail & Trading	US\$ -	US\$ 10,000
Test-Rite Business Development and six other subsidiaries	US\$ -	US\$ 16,230
Test-Rite Business Development	US\$ -	US\$ 5,000
Hola Shanghai Retail & Trading and Test-Rite Business Development	US\$ -	US\$ 5,000
Test-Rite Trading Co., Ltd.	US\$ -	US\$ 2,000
Test-Rite Pte Ltd.	US\$ 2,000	US\$ 1,000
Subsidiary of TR Development	EUR 5,500	EUR 7,000
Test-Rite Germany Import GmbH (Germany) and Subsidiary of TR Development	EUR -	EUR 1,000
Test Rite Int'l. (Canada) Ltd.	CAD -	CAD 30
Test-Rite C&B	NT\$ 45,000	NT\$ 45,000

As of December 31, 2019 and 2018, Test-Rite Retail and Test-Rite Brand Agency had import duty relief on temporary admission, coupon execution guarantee and CPC Corporation guarantee rendered by banks of approximately \$86,349 thousand and \$84,035 thousand, respectively.

32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The information of significant foreign-currency financial assets and liabilities as of December 31, 2019 and 2018 was summarized as follows:

(Unit: Foreign Currencies/New Taiwan Dollars in Thousands)

	December 31					
	2019			2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	\$ 177,843	30.135	\$ 5,359,299	\$ 156,708	30.733	\$ 4,816,107
EUR	367	33.622	12,339	474	35.098	16,618
Financial liabilities						
Monetary items						
USD	172,869	30.135	5,209,407	226,208	30.733	6,952,050
EUR	27	33.622	908	93	35.098	3,261

For the years ended December 31, 2019 and 2018, realized and unrealized net foreign exchange gains were \$124,507 thousand and \$151,708 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

33. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

- A Segment - retail segment
- B Segment - trading segment
- C Segment - construction segment

Segment Revenue and Results

The analysis of the Group revenue and results from continuing operations by reportable segment for the years ended December 31, 2019 and 2018 was as follows:

	2019				Total
	A Segment	B Segment	C Segment	Adjustment and Elimination	
Operating revenue	\$ 18,244,647	\$ 19,688,162	\$ 1,442,197	\$ (1,314,193)	\$ 38,060,813
Operating costs	<u>(11,713,586)</u>	<u>(15,536,680)</u>	<u>(1,214,303)</u>	<u>712,898</u>	<u>(27,751,671)</u>
Gross profit	6,531,061	4,151,482	227,894	(601,295)	10,309,142
Operating expenses	<u>(6,414,794)</u>	<u>(3,590,593)</u>	<u>(111,778)</u>	<u>664,645</u>	<u>(9,452,520)</u>
Profit from operations	<u>\$ 116,267</u>	<u>\$ 560,889</u>	<u>\$ 116,116</u>	<u>\$ 63,350</u>	<u>856,622</u>
Non-operating income and expenses					<u>(765,273)</u>
Profit before income tax					<u>\$ 91,349</u>
	2018				
	A Segment	B Segment	C Segment	Adjustment and Elimination	Total
Operating revenue	\$ 19,715,682	\$ 20,111,649	\$ 1,638,224	\$ (1,567,605)	\$ 39,897,950
Operating costs	<u>(12,624,626)</u>	<u>(16,212,100)</u>	<u>(1,359,619)</u>	<u>559,384</u>	<u>(29,636,961)</u>
Gross profit	7,091,056	3,899,549	278,605	(1,008,221)	10,260,989
Operating expenses	<u>(7,007,817)</u>	<u>(3,656,571)</u>	<u>(110,576)</u>	<u>996,617</u>	<u>(9,778,347)</u>
Profit from operations	<u>\$ 83,239</u>	<u>\$ 242,978</u>	<u>\$ 168,029</u>	<u>\$ (11,604)</u>	<u>482,642</u>
Non-operating income and expenses					<u>(136,585)</u>
Profit before income tax					<u>\$ 346,057</u>

All intercompany transactions have been eliminated upon consolidation for the years ended December 31, 2019 and 2018.

Segment Assets and Liabilities

The analysis of the Company's assets and liabilities by reportable segment as of December 31, 2019 and 2018 was as follows:

	2019				Total
	A Segment	B Segment	C Segment	Adjustment and Elimination	
Assets	<u>\$ 17,391,550</u>	<u>\$ 21,488,321</u>	<u>\$ 4,101,694</u>	<u>\$ (7,305,615)</u>	<u>\$ 35,675,950</u>
Liabilities	<u>\$ 15,616,031</u>	<u>\$ 13,749,346</u>	<u>\$ 2,761,632</u>	<u>\$ (2,887,706)</u>	<u>\$ 29,239,303</u>
	2018				Total
	A Segment	B Segment	C Segment	Adjustment and Elimination	
Assets	<u>\$ 11,049,013</u>	<u>\$ 18,296,345</u>	<u>\$ 2,028,791</u>	<u>\$ (5,376,130)</u>	<u>\$ 25,998,019</u>
Liabilities	<u>\$ 8,649,751</u>	<u>\$ 9,541,778</u>	<u>\$ 1,035,347</u>	<u>\$ (642,341)</u>	<u>\$ 18,584,535</u>

All intercompany transactions have been eliminated upon consolidation for the years ended December 31, 2019 and 2018.

Geographical Information

The Company operates in two principal geographical areas - Asia and America. The Company's revenue from continuing operations from external customers and information about its non-current assets by geographical location were detailed below:

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2019	2018	2019	2018
Asia	\$ 19,064,621	\$ 20,588,436	\$ 19,038,706	\$ 10,762,519
America	16,569,196	16,577,477	1,173,633	70,074
Europe	2,298,732	2,578,230	230,084	234,851
Australia and others	<u>128,264</u>	<u>153,807</u>	<u>1,025</u>	<u>16,637</u>
	<u>\$ 38,060,813</u>	<u>\$ 39,897,950</u>	<u>\$ 20,443,448</u>	<u>\$ 11,084,081</u>

Non-current assets excluded those classified as financial instruments, deferred pension cost and deferred income tax assets.

Major Customer

Major customers representing at least 10% of net revenue:

	For the Year Ended December 31	
	2019	2018
Customer A	\$ 5,482,412	\$ 5,951,986
Customer B	<u>5,330,242</u>	<u>4,770,079</u>
	<u>\$ 10,812,654</u>	<u>\$ 10,722,065</u>

