

Pacific Hospital Supply Co., Ltd.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Pacific Hospital Supply Co., Ltd.

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, 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 audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Authenticity of Sales Revenue

The revenue of the Company mainly comes from the sales of medical equipment. Sales revenue in 2019 increased by NT\$218,202 thousand from 2018. Among the top 20 customers in 2019, customers which showed revenue growth from 2018 have contributed NT\$996,747 thousand of operating revenue, which accounted for 49% of total operating revenue in 2019. We assessed that the risk related to sales revenue, that is, whether the transaction actually occurred, is high. Therefore, among the top 20 customers in 2019, revenue for customers which showed growth from 2018 was identified as one of the key audit matters.

Refer to Note 4 to the financial statements for the accounting policies related to revenue recognition.

Our main audit procedures performed for the above-mentioned key audit matter included the following:

1. We understood and tested the design and operating effectiveness of the internal controls surrounding the sales revenue recognition process of the above-mentioned customers.
2. We selected samples from sales records for the above-mentioned customers and checked whether they matched the corresponding evidence such as purchase orders, packing lists and export declarations, and tested the collection of receivables to verify the authenticity of the sales transaction.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Sheng-Hsiung Yao and Yi-Lung Chou.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2020

Notice to Readers

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

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

PACIFIC HOSPITAL SUPPLY CO., LTD.



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)	\$ 408,901	10	\$ 383,708	11
Notes receivable (Notes 4 and 7)	18,277	-	26,973	1
Accounts receivable (Notes 4, 5 and 7)	146,950	4	167,229	5
Other receivables (Notes 4 and 7)	6,608	-	7,129	-
Inventories (Notes 4 and 8)	315,631	8	269,820	7
Prepayments	21,031	1	25,336	1
Non-current assets held for sale (Notes 4, 9 and 28)	256,557	7	117,564	3
Other current assets (Note 15)	4,567	-	4,844	-
Total current assets	<u>1,178,522</u>	<u>30</u>	<u>1,002,603</u>	<u>28</u>
NON-CURRENT ASSETS				
Investments accounted for using the equity method (Notes 4 and 10)	141,939	4	-	-
Property, plant and equipment (Notes 4, 9, 11, 24 and 28)	2,047,999	52	2,380,535	66
Right-of-use assets (Notes 4, 12 and 27)	418,998	11	-	-
Investment properties (Notes 4, 13 and 28)	92,490	2	92,798	3
Other intangible assets (Notes 4 and 14)	9,016	-	10,685	-
Deferred tax assets (Notes 4 and 22)	13,642	-	11,712	-
Other non-current assets (Notes 15 and 24)	44,423	1	87,192	3
Total non-current assets	<u>2,768,507</u>	<u>70</u>	<u>2,582,922</u>	<u>72</u>
TOTAL	<u>\$ 3,947,029</u>	<u>100</u>	<u>\$ 3,585,525</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 30,000	1	\$ -	-
Contract liabilities	27,067	1	32,064	1
Notes payable	900	-	2,760	-
Accounts payable	142,631	3	140,156	4
Other payables (Notes 17 and 24)	184,434	5	320,274	9
Current tax liabilities (Notes 4 and 22)	45,119	1	31,133	1
Lease liabilities - current (Notes 4,12 and 27)	11,865	-	-	-
Current portion of long-term borrowings (Notes 16 and 28)	50,000	1	113,804	3
Other current liabilities (Note 17)	2,124	-	2,145	-
Total current liabilities	<u>494,140</u>	<u>12</u>	<u>642,336</u>	<u>18</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 16 and 28)	470,000	12	606,196	17
Lease liabilities - non-current (Notes 4,12 and 27)	409,616	10	-	-
Net defined benefit liabilities - non-current (Notes 4 and 18)	20,900	1	25,243	1
Guarantee deposits (Note 17)	581	-	581	-
Total non-current liabilities	<u>901,097</u>	<u>23</u>	<u>632,020</u>	<u>18</u>
Total liabilities	<u>1,395,237</u>	<u>35</u>	<u>1,274,356</u>	<u>36</u>
EQUITY (Note 19)				
Share capital				
Ordinary shares	660,152	17	660,152	18
Capital surplus from shares issued in excess of par value	410,354	10	410,354	11
Retained earnings				
Legal reserve	332,541	9	310,905	9
Unappropriated earnings	1,154,066	29	929,758	26
Total retained earnings	<u>1,486,607</u>	<u>38</u>	<u>1,240,663</u>	<u>35</u>
Other equity				
Exchange differences on translating the financial statements of foreign operations	(5,321)	-	-	-
Total equity	<u>2,551,792</u>	<u>65</u>	<u>2,311,169</u>	<u>64</u>
TOTAL	<u>\$ 3,947,029</u>	<u>100</u>	<u>\$ 3,585,525</u>	<u>100</u>

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

PACIFIC HOSPITAL SUPPLY CO., LTD.



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 20)				
Sales	\$ 2,049,720	100	\$ 1,830,606	100
Less: Sales returns and allowances	<u>(9,077)</u>	<u>-</u>	<u>(8,165)</u>	<u>-</u>
Net operating revenue	2,040,643	100	1,822,441	100
OPERATING COSTS (Notes 4, 8, 18 and 21)				
Cost of goods sold	<u>1,461,760</u>	<u>72</u>	<u>1,353,734</u>	<u>74</u>
GROSS PROFIT	<u>578,883</u>	<u>28</u>	<u>468,707</u>	<u>26</u>
OPERATING EXPENSES (Notes 18, 21 and 27)				
Selling and marketing expense	78,680	4	70,306	4
General and administrative expense	107,800	5	103,467	6
Research and development expense	<u>42,690</u>	<u>2</u>	<u>41,254</u>	<u>2</u>
Total operating expenses	<u>229,170</u>	<u>11</u>	<u>215,027</u>	<u>12</u>
OPERATING INCOME	<u>349,713</u>	<u>17</u>	<u>253,680</u>	<u>14</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 21 and 27)	15,641	1	16,680	1
Other gains and losses (Note 21)	179,866	9	12,811	1
Finance costs (Note 21)	(14,736)	(1)	(10,687)	(1)
Share of profit or loss of subsidiaries accounted for using the equity method (Note 4)	<u>(642)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>180,129</u>	<u>9</u>	<u>18,804</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	529,842	26	272,484	15
INCOME TAX EXPENSE (Notes 4 and 22)	<u>70,722</u>	<u>4</u>	<u>56,131</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>459,120</u>	<u>22</u>	<u>216,353</u>	<u>12</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 18, 19 and 22)				
Items that will not be reclassified subsequently to loss:				
Remeasurement of defined benefit plans	(2,409)	-	(1,153)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	482	-	604	-

(Continued)

PACIFIC HOSPITAL SUPPLY CO., LTD.

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	%
Items that may be reclassified subsequently to loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (6,651)	-	\$ -	-
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>1,330</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(7,248)</u>	<u>-</u>	<u>(549)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 451,872</u>	<u>22</u>	<u>\$ 215,804</u>	<u>12</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 6.95</u>		<u>\$ 3.28</u>	
Diluted	<u>\$ 6.92</u>		<u>\$ 3.26</u>	

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

(Concluded)

PACIFIC HOSPITAL SUPPLY CO., LTD.



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

	Share Capital Ordinary Shares (Note 19)	Capital Surplus Issuance of Shares in Excess of Par Value (Note 19)	Retained Earnings (Notes 4, 19 and 22)			Exchange Differences on Translating the Financial Statements of Foreign Operations (Notes 4 and 19)	Total Equity
			Legal Reserve	Unappropriated Earnings	Total		
BALANCE AT JANUARY 1, 2018	\$ 660,152	\$ 410,354	\$ 287,196	\$ 902,701	\$ 1,189,897	\$ -	\$ 2,260,403
Appropriation of 2017 earnings							
Legal reserve	-	-	23,709	(23,709)	-	-	-
Cash dividends distributed	-	-	-	(165,038)	(165,038)	-	(165,038)
Net profit for the year ended December 31, 2018	-	-	-	216,353	216,353	-	216,353
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	(549)	(549)	-	(549)
Total comprehensive income for the year ended December 31, 2018	-	-	-	215,804	215,804	-	215,804
BALANCE AT DECEMBER 31, 2018	660,152	410,354	310,905	929,758	1,240,663	-	2,311,169
Appropriation of 2018 earnings							
Legal reserve	-	-	21,636	(21,636)	-	-	-
Cash dividends distributed	-	-	-	(211,249)	(211,249)	-	(211,249)
Net profit for the year ended December 31, 2019	-	-	-	459,120	459,120	-	459,120
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	(1,927)	(1,927)	(5,321)	(7,248)
Total comprehensive income for the year ended December 31, 2019	-	-	-	457,193	457,193	(5,321)	451,872
BALANCE AT DECEMBER 31, 2019	\$ 660,152	\$ 410,354	\$ 332,541	\$ 1,154,066	\$ 1,486,607	\$ (5,321)	\$ 2,551,792

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

PACIFIC HOSPITAL SUPPLY CO., LTD.



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	\$ 529,842	\$ 272,484
Adjustments for:		
Depreciation expenses	162,837	144,265
Amortization expenses	6,619	6,533
Impairment losses recognized on accounts receivable	-	286
Interest income	(1,641)	(1,298)
Finance costs	14,736	10,687
Share of loss of subsidiaries	642	-
Loss/(gain) on disposal of property, plant and equipment	5,176	(112)
Gain on disposal of non-current assets held for sale	(189,684)	-
Inventory write-downs	182	1,483
Net loss/(gain) on foreign currency exchange	7,593	(6,179)
Loss on disposal of inventories	4,542	3,801
Decrease in net defined benefit liabilities - non-current	(6,752)	(6,023)
Changes in operating assets and liabilities		
Notes receivable	8,696	(10,776)
Accounts receivable	19,392	(39,959)
Other receivables	413	15,819
Inventories	(50,535)	9,362
Prepayments	4,305	3,388
Other current assets	276	(356)
Contract liabilities	(4,997)	9,735
Notes payable	(1,860)	(5,267)
Accounts payable	2,476	(18,826)
Other payables	19,575	18,988
Other current liabilities	(21)	671
Cash generated from operations	531,812	408,706
Interest received	1,749	1,132
Interest paid	(15,328)	(10,253)
Income tax paid	(56,855)	(58,093)
Net cash generated from operating activities	<u>461,378</u>	<u>341,492</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in prepayments for equipment	(20,353)	(39,775)
Acquisition of subsidiaries accounted for using the equity method	(149,232)	-
Proceeds from disposal of non-current assets held for sale	307,248	-
Acquisition of property, plant and equipment	(175,210)	(247,829)
Proceeds from disposal of property, plant and equipment	2,522	27,433
Increase in refundable deposits	(1,755)	-
Decrease in refundable deposits	-	2,148
Acquisition of intangible assets	(4,950)	(4,337)

Net cash used in investing activities (41,730) (262,360)
(Continued)

PACIFIC HOSPITAL SUPPLY CO., LTD.

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

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ 30,000	\$ -
Decrease in short-term borrowings	-	(20,000)
Proceeds from long-term borrowings	470,000	750,000
Repayments of long-term borrowings	(670,000)	(711,612)
Repayment of the principal portion of lease liabilities	(6,500)	-
Cash dividends distributed	<u>(211,249)</u>	<u>(165,038)</u>
Net cash used in financing activities	<u>(387,749)</u>	<u>(146,650)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(6,706)</u>	<u>5,692</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	25,193	(61,826)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>383,708</u>	<u>445,534</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 408,901</u>	<u>\$ 383,708</u>

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

(Concluded)

PACIFIC HOSPITAL SUPPLY CO., LTD.

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

1. GENERAL INFORMATION

Pacific Hospital Supply Co., Ltd. (the “Company”) mainly manufactures, processes and sells medical disposable products and equipment and does medical engineering work on centralized medical gas piping systems.

The Company’s shares were listed and have been trading on the Taipei Exchange since February 2004.

In the Company’s board of directors’ meeting held on August 9, 2018, a resolution was passed to conduct a short-form merger with the Company’s subsidiary, Pacific Precision Technology Co., Ltd. The Company is the surviving entity, and all the rights and obligations of Pacific Precision Technology Co., Ltd., the extinguished entity, were succeeded by the Company on October 1, 2018, the effective date. The purpose of this merger was to integrate Group resources and strengthen operational synergy.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issuance on February 26, 2020.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), 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 Company’s accounting policies:

- 1) IFRS 16 “Leases”

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

Definition of a lease

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

The Company as lessee

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

The Company elects 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 is not restated.

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

The Company also applies the following practical expedients:

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

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.32%. The difference between the lease liabilities recognized and operating lease commitments disclosed on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	<u>\$ 180,612</u>
Undiscounted amounts on January 1, 2019	<u>\$ 180,612</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 163,780
Add: Adjustments as a result of a different treatment of extension and termination options	<u>264,201</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 427,981</u>

The Company as lessor

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ _____ -	\$ <u>427,981</u>	\$ <u>427,981</u>
Total effect on assets	\$ _____ -	\$ <u>427,981</u>	\$ <u>427,981</u>
Lease liabilities - current	\$ -	\$ 12,023	\$ 12,023
Lease liabilities - non-current	_____ -	<u>415,958</u>	<u>415,958</u>
Total effect on liabilities	\$ _____ -	\$ <u>427,981</u>	\$ <u>427,981</u>

2) IFRIC 23 “Uncertainty over Income Tax Treatments

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

The Company has assessed that the initial application of IFRIC 23 would not have a material impact on the Company’s financial position and financial performance.

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

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

The Company has assessed that the initial application of the above amendments would not have a material impact on the Company’s financial position and financial performance.

4) Annual Improvements to IFRSs 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

2) Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) with an alternative interest rate, and provide temporary exceptions to all hedging relationships that are directly affected by the interest rate benchmark reform. The Company would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require additional disclosures about the extent to which the entity’s hedging relationships are affected by the amendments.

3) Amendments to IAS 1 and IAS 8 “Definition of material”

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

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

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

New IFRSs	Effective Date Announced by IASB (Note)
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.

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The 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 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 are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which 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 the 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 twelve 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 twelve months after the reporting period.

Current liabilities include:

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

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

Business Combinations

Business combinations involving entities under common control are not accounted for by the acquisition method but are accounted for at the carrying amounts of the entities. Comparative information of the prior period in the financial statements is restated as if a business combination involving entities under common control had already occurred in that period.

Foreign Currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (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 fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction (i.e. not retranslated).

For the purpose of presenting 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.

Inventories

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

Investments in Subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

Subsidiaries are the entities controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

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

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Property, plant and equipment in the course of construction are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of the item of property, plant and equipment is shorter than its useful life, it is depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate 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.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation. Depreciation is recognized using the straight-line method.

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

Intangible Assets

a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. 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 estimate accounted for on a prospective basis.

b. Derecognition of intangible assets

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

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual 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.

Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amounts and fair values less costs to sell, and recognition of depreciation of those assets would cease.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company 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 issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss 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 category

Financial assets are classified as financial assets at amortized cost.

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

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) 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 and accounts receivable at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined by 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 a financial asset, except for:

- a) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- b) Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

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.

2) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

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

Expected credit losses reflect the weighted average of credit losses with the respective risks of a 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.

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

b. Financial liabilities

1) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest method.

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.

Revenue Recognition

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

Revenue from the sale of goods comes from sales of medical disposable products and equipment. Sales of medical disposable products and equipment are recognized as revenue when the goods are delivered to the customer's specific location or when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Accounts receivable are recognized concurrently.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

Leasing

2019

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

a. The Company as lessor

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

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company. The lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of a contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

b. The Company as lessee

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

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 accompanying 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 and variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

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

2018

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

a. The Company as lessor

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

b. The Company as lessee

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

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 services entitling them to the contributions.

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

Net defined benefit liabilities represent the actual deficit in the Company's defined benefit plan. 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.

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 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, unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset 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 liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be 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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Accounting Judgements

Lease terms - 2019

In determining a lease term, the Company considers all facts and circumstances that create an economic incentive to exercise or not to exercise an option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Main factors considered include contractual terms and conditions for the optional periods, significant leasehold improvements undertaken over the contract term, the importance of the underlying asset to the lessee's operations, etc. The lease term is reassessed if a significant change in circumstances that are within control of the Company occur.

Key Sources of Estimation Uncertainty

a. Estimated impairment of financial assets

The provision for impairment of accounts receivable and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 666	\$ 839
Checking accounts and demand deposits	363,265	321,439
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>44,970</u>	<u>61,430</u>
	<u>\$ 408,901</u>	<u>\$ 383,708</u>

The market interest rate intervals of cash in bank at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Bank deposits	0.01%-2.20%	0.01%-3.05%

7. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Notes receivable</u>		
Notes receivable - operating	\$ <u>18,277</u>	\$ <u>26,973</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ <u>146,950</u>	\$ <u>167,229</u>
<u>Other receivables</u>		
Value-added tax refund receivable	\$ 6,537	\$ 6,620
Others	<u>71</u>	<u>509</u>
	<u>\$ 6,608</u>	<u>\$ 7,129</u>

Notes receivable, accounts receivable and other receivables

The average credit period of sales of goods was 30-90 days. No interest was charged on accounts receivable.

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 Company 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 Company's credit risk was significantly reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all accounts receivable. The expected credit losses on accounts receivable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. As the Company'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 is not further distinguished according to the Company's different customer base.

The Company writes off an accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the accounts receivable are over 365 days past due, whichever occurs earlier. For accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of accounts receivable based on the Company's provision matrix.

December 31, 2019

	Not Past Due	1 to 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate	0%	0%	0%	10%	100%	
Gross carrying amount	\$ 95,741	\$ 51,157	\$ 49	\$ 3	\$ -	\$ 146,950
Loss allowance (Lifetime ECLs)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 95,741</u>	<u>\$ 51,157</u>	<u>\$ 49</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 146,950</u>

December 31, 2018

	Not Past Due	1 to 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate	0%	0%	0%	10%	100%	
Gross carrying amount	\$ 119,836	\$ 47,369	\$ 24	\$ -	\$ -	\$ 167,229
Loss allowance (Lifetime ECLs)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 119,836</u>	<u>\$ 47,369</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,229</u>

The movements of the allowance for doubtful accounts receivable were as follows:

	For the Year Ended December 31	
	2019	2018
Balance at January 1, 2019	\$ -	\$ -
Add: Impairment losses recognized on receivables	-	286
Less: Amounts written off during the period as uncollectible	<u>-</u>	<u>(286)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>

8. INVENTORIES

	December 31	
	2019	2018
Finished goods	\$ 108,341	\$ 73,659
Work in process	27,393	42,426
Raw materials	<u>179,897</u>	<u>153,735</u>
	<u>\$ 315,631</u>	<u>\$ 269,820</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$1,461,760 thousand and \$1,353,734 thousand, respectively.

The amount of cost of goods for the years ended December 31, 2019 and 2018 included \$182 thousand and \$1,483 thousand of inventory write-downs, respectively.

9. NON-CURRENT ASSETS HELD FOR SALE

	<u>December 31</u>	
	2019	2018
Freehold land held for sale	\$ 61,205	\$ 37,925
Property, plant and equipment held for sale	<u>195,352</u>	<u>79,639</u>
	<u>\$ 256,557</u>	<u>\$ 117,564</u>

On November 2, 2018, the Company's board of directors resolved to sell its land and buildings in Tongluo Industrial Park, Miaoli County. On July 31, 2019, the Company has signed the real estate sales contract with the price of \$320,000 thousand (including tax) with P&D POLYESTER INDUSTRIAL COMPANY, LTD. Payment collection and the property ownership transfer process have been completed on October 18, 2019. Gain on disposal was \$189,684 thousand.

On November 5, 2019, the Company's board of directors resolved to sell its land and buildings in No. 6, Minzhi Rd., Tongluo Township, Miaoli County. The Company is actively looking for the buyer, and the sales process is expected to be completed within 12 months. As the sales price is expected to exceed the carrying amount of the relevant assets, no impairment loss was recognized when classifying these assets as non-current assets held for sale.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Subsidiaries

	<u>December 31</u>	
	2019	2018
Pacific Hospital Supply (Changzhou) Co., Ltd.	<u>\$ 141,939</u>	<u>\$ -</u>
	Proportion of Ownership and Voting Rights	
	<u>December 31</u>	
	2019	2018
Pacific Hospital Supply (Changzhou) Co., Ltd.	100%	-
Pacific Precision Technology Co., Ltd.	-	-

Remark a: The Company established a 100%, wholly-owned subsidiary, Pacific Precision Technology Co., Ltd., the investment for which was resolved by the board of directors in January 2013. The subsidiary was registered by the Ministry of Economic Affairs, R.O.C. on February 7, 2013.

Remark b: In the Company's board of directors meeting held on August 9, 2018, a resolution was passed to conduct a simplified merger with Pacific Precision Technology Co., Ltd., a wholly-owned subsidiary of the Company. The Company is the surviving entity after the merger, and all the rights and obligations of Pacific Precision Technology Co., Ltd., the extinguished entity, was succeeded by the Company (surviving entity) on October 1, 2018, the effective date of the merger.

Remark c: The Company established a wholly-owned mainland China subsidiary, Pacific Hospital Supply (Changzhou) Co., Ltd., the investment for which was resolved by the board of directors in January 2019. The investment in mainland China was authorized by the Investment Commission, Ministry of Economic Affairs, R.O.C. on April 24, 2019 and was registered by the Administration for Market Regulation of Wujin District, Changzhou City, People's Republic of China, on June 5, 2019.

Remark d: The Company's share of profit and loss and other comprehensive income and loss of the subsidiaries accounted for using the equity method for the years ended December 31, 2019 and 2018 are recognized based on the financial reports of each subsidiary for the respective periods that were audited by the CPA.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Transportation Equipment	Miscellaneous Equipment	Property Under Construction	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 225,135	\$ 1,968,953	\$ 561,226	\$ 16,108	\$ 308,314	\$ 5,209	\$ 3,084,945
Additions	-	26,894	57,297	4,940	46,334	-	135,465
Disposals	(7,686)	(1,604)	(35,778)	(5,428)	(5,915)	-	(56,411)
Reclassification	(37,925)	(104,854)	23,265	-	6,015	(5,209)	(118,708)
Others	-	(7,697)	-	-	-	-	(7,697)
Balance at December 31, 2018	<u>\$ 179,524</u>	<u>\$ 1,881,692</u>	<u>\$ 606,010</u>	<u>\$ 15,620</u>	<u>\$ 354,748</u>	<u>\$ -</u>	<u>\$ 3,037,594</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 200,125	\$ 215,237	\$ 8,255	\$ 146,113	\$ -	\$ 569,730
Disposals	-	(1,604)	(19,720)	(2,789)	(4,977)	-	(29,090)
Depreciation expenses	-	65,202	35,588	1,772	41,394	-	143,956
Reclassification	-	(28,792)	-	-	-	-	(28,792)
Others	-	-	-	-	1,255	-	1,255
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 234,931</u>	<u>\$ 231,105</u>	<u>\$ 7,238</u>	<u>\$ 183,785</u>	<u>\$ -</u>	<u>\$ 657,059</u>
Carrying amounts at December 31, 2018	<u>\$ 179,524</u>	<u>\$ 1,646,761</u>	<u>\$ 374,905</u>	<u>\$ 8,382</u>	<u>\$ 170,963</u>	<u>\$ -</u>	<u>\$ 2,380,535</u>
<u>Cost</u>							
Balance at January 1, 2019	\$ 179,524	\$ 1,881,692	\$ 606,010	\$ 15,620	\$ 354,748	\$ -	\$ 3,037,594
Additions	-	1,841	36,366	-	30,751	-	68,958
Disposals	-	(874)	(5,660)	(2,659)	(21,840)	-	(31,033)
Reclassification	(61,205)	(258,913)	6,416	-	4,511	-	(309,191)
Others	-	(48,571)	-	-	-	-	(48,571)
Balance at December 31, 2019	<u>\$ 118,319</u>	<u>\$ 1,575,175</u>	<u>\$ 643,132</u>	<u>\$ 12,961</u>	<u>\$ 368,170</u>	<u>\$ -</u>	<u>\$ 2,717,757</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ -	\$ 234,931	\$ 231,105	\$ 7,238	\$ 183,785	\$ -	\$ 657,059
Disposals	-	(874)	(3,723)	(2,340)	(16,398)	-	(23,335)
Depreciation expenses	-	60,914	42,288	1,711	48,633	-	153,546
Reclassification	-	(88,504)	(29,008)	-	-	-	(117,512)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 206,467</u>	<u>\$ 240,662</u>	<u>\$ 6,609</u>	<u>\$ 216,020</u>	<u>\$ -</u>	<u>\$ 669,758</u>
Carrying amounts at December 31, 2019	<u>\$ 118,319</u>	<u>\$ 1,368,708</u>	<u>\$ 402,470</u>	<u>\$ 6,352</u>	<u>\$ 152,150</u>	<u>\$ -</u>	<u>\$ 2,047,999</u>

No impairment assessment was performed for the years ended December 31, 2019 and 2018 as there was no indication of impairment.

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

Buildings	
Plant	30-51 years
Electrical power equipment	15-30 years
Others	2-50 years
Machinery and equipment	2-26 years
Transportation equipment	5-11 years
Miscellaneous equipment	2-15 years

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 28.

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land	\$ 418,854
Buildings	<u>144</u>
	<u>\$ 418,998</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 427,981</u>
Depreciation charge for right-of-use assets	
Land	\$ 8,912
Buildings	<u>71</u>
	<u>\$ 8,983</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 11,865</u>
Non-current	<u>\$ 409,616</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.32%
Buildings	1.32%

c. Material lease-in activities and terms

The Company leases land for the use of factory building with lease terms from 2014 to 2033. The Company has the right to renew the contract at the end of the lease term.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties and freehold property, plant and equipment are set out in Notes 13.

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	\$ <u>115</u>
Total cash outflow for leases	\$ <u>(115)</u>

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

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	\$ 12,109
Later than 1 year and not later than 5 years	48,144
Later than 5 years	<u>120,359</u>
	<u>\$ 180,612</u>

13. INVESTMENT PROPERTIES

	Freehold Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2018 and December 31, 2018	<u>\$ 78,179</u>	<u>\$ 15,724</u>	<u>\$ 93,903</u>

(Continued)

	Freehold Land	Buildings	Total
<u>Accumulated depreciation</u>			
Balance at January 1, 2018	\$ -	\$ 796	\$ 796
Depreciation expenses	<u>-</u>	<u>309</u>	<u>309</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 1,105</u>	<u>\$ 1,105</u>
Carrying amounts at December 31, 2018	<u>\$ 78,179</u>	<u>\$ 14,619</u>	<u>\$ 92,798</u>
<u>Cost</u>			
Balance at January 1, 2019 and December 31, 2019	<u>\$ 78,179</u>	<u>\$ 15,724</u>	<u>\$ 93,903</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2019	\$ -	\$ 1,105	\$ 1,105
Depreciation expenses	<u>-</u>	<u>308</u>	<u>308</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 1,413</u>	<u>\$ 1,413</u>
Carrying amounts at December 31, 2019	<u>\$ 78,179</u>	<u>\$ 14,311</u>	<u>\$ 92,490</u> (Concluded)

The lease period of investment properties is from 2015 to 2021. The lessees do not have the bargain purchase options to acquire the investment properties at the end of the lease periods.

The maturity analysis of lease receivable under operating leases of investment properties at December 31, 2019 was as follows:

	December 31, 2019
Not later than 1 year	<u>\$ 3,643</u>

The future minimum lease payments of non-cancellable operating lease commitments at December 31, 2018 are as follows:

	December 31, 2018
Not later than 1 year	\$ 3,661
Later than 1 year and not later than 5 years	<u>1,517</u>
	<u>\$ 5,178</u>

Buildings classified as investment properties are depreciated on a straight-line basis over their estimated useful lives of 51 years.

The investment properties were acquired on June 1, 2015. The fair value appraisal was performed by Euroasia Real Estate Appraisers Firm in December 2019. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value of investment properties was determined to be \$107,251 thousand.

All of the Company's investment properties were held under freehold interests. The investment properties pledged as collateral for bank borrowings are set out in Note 28.

14. OTHER INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance at January 1, 2018	\$ 25,524
Additions	4,337
Others	<u>(8,512)</u>
Balance at December 31, 2018	<u>\$ 21,349</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2018	\$ 12,643
Amortization expenses	6,533
Others	<u>(8,512)</u>
Balance at December 31, 2018	<u>\$ 10,664</u>
Carrying amounts at December 31, 2018	<u>\$ 10,685</u>
<u>Cost</u>	
Balance at January 1, 2019	\$ 21,349
Additions	4,950
Others	<u>(2,485)</u>
Balance at December 31, 2019	<u>\$ 23,814</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2019	\$ 10,664
Amortization expenses	6,619
Others	<u>(2,485)</u>
Balance at December 31, 2019	<u>\$ 14,798</u>
Carrying amounts at December 31, 2019	<u>\$ 9,016</u>

Computer software costs were amortized on a straight-line basis over their estimated useful lives of 1 to 5 years.

15. OTHER ASSETS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Input tax	\$ 1,449	\$ 3,509
Others	<u>3,118</u>	<u>1,335</u>
	<u>\$ 4,567</u>	<u>\$ 4,844</u>
<u>Non-current</u>		
Prepayments for equipment	\$ 23,954	\$ 68,478
Refundable deposits	<u>20,469</u>	<u>18,714</u>
	<u>\$ 44,423</u>	<u>\$ 87,192</u>

16. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 30,000</u>	<u>\$ -</u>

The weighted average effective interest rate on bank loans was 1.2% as of December 31, 2019.

b. Long-term borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Secured borrowings (Note 28)</u>		
Bank loans (1)	\$ 230,000	\$ 380,000
Bank loans (2)	140,000	-
Bank loans (3)	50,000	50,000
Bank loans (4)	30,000	-
Bank loans (5)	20,000	-
Bank loans (6)	-	90,000
Bank loans (7)	-	90,000
Bank loans (8)	-	60,000
<u>Unsecured borrowings</u>		
Bank loans (9)	50,000	-
Bank loans (10)	<u>-</u>	<u>50,000</u>
	520,000	720,000
Less: Current portions	<u>(50,000)</u>	<u>(113,804)</u>
Long-term borrowings	<u>\$ 470,000</u>	<u>\$ 606,196</u>

- 1) On November 30, 2018, the Company acquired a new bank borrowing facility in the amount of \$380,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: November 2018 - November 2021). \$150,000 thousand was repaid in advance in the fourth quarter of 2019. The weighted average effective interest rate was 1.26% per annum as of December 31, 2019 and 2018.
- 2) On September 27, 2019, the Company acquired a new bank borrowing facility in the amount of \$200,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: September 2019 - September 2022). \$60,000 thousand was repaid in advance in the fourth quarter of 2019. The weighted average effective interest rate was 1.26% per annum as of December 31, 2019.
- 3) On December 28, 2018, the Company acquired a new bank borrowing facility in the amount of \$50,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: December 2018 - December 2021). The weighted average effective interest rate was 1.26% per annum as of December 31, 2019 and 2018.
- 4) On July 17, 2019, the Company acquired a new bank borrowing facility in the amount of \$30,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: July 2019 - July 2022). The weighted average effective interest rate was 1.26% per annum as of December 31, 2019.
- 5) On April 25, 2019, the Company acquired a new bank borrowing facility in the amount of \$20,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: April 2019 - April 2022). The weighted average effective interest rate was 1.26% per annum as of December 31, 2019.
- 6) On June 29, 2015, the Company acquired a new bank borrowing facility in the amount of \$90,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: June 2015 - June 2030). This bank borrowing was fully repaid in April 2019.
- 7) On November 30, 2018, the Company acquired a new bank borrowing facility in the amount of \$90,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable on the due date (term: November 2018 - November 2020). This bank borrowing was fully repaid in September 2019.
- 8) On May 19, 2017, the Company acquired a new bank borrowing facility in the amount of \$60,000 thousand, which was secured by the Company's freehold land and buildings (see Note 28) and is repayable over the 5-year term (term: May 2017 - May 2022 with a grace period for the first 24 months). This bank borrowing was fully repaid in February 2019.
- 9) On July 16, 2019, the Company acquired a new bank borrowing facility in the amount of \$50,000 thousand which is repayable on the due date (term: July 2019 - October 2020). The weighted average effective interest rate was 1.02335% per annum as of December 31, 2019.
- 10) On July 16, 2018, the Company acquired a new bank borrowing facility in the amount of \$50,000 thousand which is repayable on the due date (term: July 2018 - October 2019). This bank borrowing was fully repaid in October 2019.

17. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Other payables		
Accrued salary and compensation	\$ 87,226	\$ 76,173
Accrual amounts for employees' compensation	25,000	19,000
Accrued vacation compensation	14,970	11,379
Payables for purchase of equipment	7,345	162,167
Accrual amounts for remuneration of directors and supervisors	2,240	2,120
Others	<u>47,653</u>	<u>49,435</u>
	<u>\$ 184,434</u>	<u>\$ 320,274</u>
Other liabilities		
Others	<u>\$ 2,124</u>	<u>\$ 2,145</u>
<u>Non-current</u>		
Guarantee deposits	<u>\$ 581</u>	<u>\$ 581</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, 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 Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. From January and July 2005 onwards, the contribution amounts were changed to 6% and 3%, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the defined benefit plan were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 94,755	\$ 91,034
Fair value of plan assets	<u>(73,855)</u>	<u>(65,791)</u>
Net defined benefit liabilities	<u>\$ 20,900</u>	<u>\$ 25,243</u>

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	\$ 87,324	\$ (57,211)	\$ 30,113
Service cost			
Current service cost	528	-	528
Net interest expense (income)	<u>866</u>	<u>(575)</u>	<u>291</u>
Recognized in profit or loss	<u>1,394</u>	<u>(575)</u>	<u>819</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,667)	(1,667)
Actuarial loss - changes in demographic assumptions	15	-	15
Actuarial loss - experience adjustments	<u>2,805</u>	<u>-</u>	<u>2,805</u>
Recognized in other comprehensive income	<u>2,820</u>	<u>(1,667)</u>	<u>1,153</u>
Contributions from the employer	-	(6,842)	(6,842)
Benefits paid	<u>(504)</u>	<u>504</u>	<u>-</u>
Balance at December 31, 2018	<u>91,034</u>	<u>(65,791)</u>	<u>25,243</u>
Service cost			
Current service cost	369		369
Net interest expense (income)	<u>901</u>	<u>(660)</u>	<u>241</u>
Recognized in profit or loss	<u>1,270</u>	<u>(660)</u>	<u>610</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(2,218)	(2,218)
Actuarial loss - changes in demographic assumptions	874	-	874
Actuarial loss - changes in financial assumptions	2,450	-	2,450
Actuarial loss - experience adjustments	<u>1,303</u>	<u>-</u>	<u>1,303</u>
Recognized in other comprehensive income	<u>4,627</u>	<u>(2,218)</u>	<u>2,409</u>
Contributions from the employer	-	(7,362)	(7,362)
Benefits paid	<u>(2,176)</u>	<u>2,176</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 94,755</u>	<u>\$ (73,855)</u>	<u>\$ 20,900</u>

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

	For the Year Ended December 31	
	2019	2018
Operating costs	\$ 469	\$ 622
Selling and marketing expenses	34	50
General and administrative expenses	70	99
Research and development expenses	<u>37</u>	<u>48</u>
	<u>\$ 610</u>	<u>\$ 819</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the 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. Therefore, 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 principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rate	0.75%	1.00%
Expected rate of salary increase	2.00%	2.00%
Turnover rate	0.58%	0.94%

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% increase	<u>\$ (2,493)</u>	<u>\$ (2,451)</u>
0.25% decrease	<u>\$ 2,591</u>	<u>\$ 2,549</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 2,552</u>	<u>\$ 2,517</u>
0.25% decrease	<u>\$ (2,469)</u>	<u>\$ (2,433)</u>
Turnover rate		
110% of presumptive turnover rate	<u>\$ (92)</u>	<u>\$ (189)</u>
90% of presumptive turnover rate	<u>\$ 93</u>	<u>\$ 192</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
The expected contributions to the plan for the next year	<u>\$ 2,301</u>	<u>\$ 2,270</u>
The average duration of the defined benefit obligation	10 years	10 years

19. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2019	2018
Number of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>66,015</u>	<u>66,015</u>
Shares issued	<u>\$ 660,152</u>	<u>\$ 660,152</u>

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

b. Capital surplus

The capital surplus generated from the excess of the issuance price over the par value of capital stock (including share premium from issuance of ordinary shares and conversion of bonds) and donations 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 once a year).

c. Retained earnings and dividends policy

Under the dividend policy as set forth in the Company's Articles of Incorporation (the "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 distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors, refer to Note 21(f) Employees' compensation and remuneration of directors and supervisors.

The Company has adopted the equalization dividend policy for the payment of dividends, which may be paid either in the form of share dividends (including dividends from earnings and capital surplus) or cash dividends. Dividend payments are made from the earnings in the current year of the Company after the appropriation. In determining the distribution of dividends, the board of directors shall take into consideration the general business and financial condition of the Company, and shall be approved in the shareholders' meetings. The distribution method shall take into consideration the Company's operational needs and both dividend equality and shareholder rights protection policies; therefore distributions of cash dividends shall not be less than 20% of total dividends distributed.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Company's paid-in-capital. The legal reserve may be used to offset deficit. 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.

Under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers on Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on June 12, 2019 and June 11, 2018, respectively, were as follows:

	Appropriation of Earnings	
	For the Year Ended December 31	
	2018	2017
Legal reserve	\$ 21,636	\$ 23,709
Cash dividends	\$ 211,249	\$ 165,038
Dividends per share (NT\$)	\$ 3.2	\$ 2.5

The appropriation of earnings for 2019 are subject to resolution in the shareholders' meeting to be held on June 16, 2020.

d. Other equity items

Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31, 2019
Balance at January 1	\$ -
Recognized for the year	
Exchange differences on translating the financial statements of foreign operations	(6,651)
Related income tax	<u>1,330</u>
Balance at December 31	<u>\$ (5,321)</u>

Relevant exchange differences arising from the conversion of the net assets of foreign operations from their functional currencies into the Company's presentation currency (i.e., the New Taiwan dollar) is directly recognized as exchange differences on translating the financial statements of foreign operations under other comprehensive income.

20. REVENUE

a. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Accounts receivable (Note 7)	\$ <u>146,950</u>	\$ <u>167,229</u>	\$ <u>127,069</u>
Contract liabilities			
Sale of goods	\$ <u>27,067</u>	\$ <u>32,064</u>	\$ <u>22,329</u>

b. Contracts not fully completed

The expected duration period of the Company's obligations related to contracts with customers not fully completed is no longer than 1 year.

21. PROFIT BEFORE INCOME TAX

a. Other income

	<u>For the Year Ended December 31</u>	
	2019	2018
Operating lease rental income		
Investment properties	\$ 3,643	\$ 3,643
Others	<u>24</u>	<u>788</u>
	3,667	4,431
Interest income - bank deposits	1,641	1,298
Others	<u>10,333</u>	<u>10,951</u>
	<u>\$ 15,641</u>	<u>\$ 16,680</u>

b. Other gains and losses

	<u>For the Year Ended December 31</u>	
	2019	2018
Gains (losses) on disposal of property, plant and equipment	\$ (5,176)	\$ 112
Gain on disposal of non-current assets held for sale	189,684	-
Net foreign currency exchange gains (losses)	<u>(4,642)</u>	<u>12,699</u>
	<u>\$ 179,866</u>	<u>\$ 12,811</u>

c. Finance costs

	<u>For the Year Ended December 31</u>	
	2019	2018
Interest on bank borrowings	\$ 8,985	\$ 10,587
Interest on lease liabilities	5,611	-
Other interest expense	<u>140</u>	<u>100</u>
	<u>\$ 14,736</u>	<u>\$ 10,687</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	\$ 153,546	\$ 143,956
Right-of-use assets	8,983	-
Investment properties	308	309
Intangible assets	<u>6,619</u>	<u>6,533</u>
	<u>\$ 169,456</u>	<u>\$ 150,798</u>
 An analysis of depreciation by function		
Operating costs	\$ 150,241	\$ 133,490
Selling and marketing expenses	260	201
General and administrative expenses	4,883	4,330
Research and development expenses	<u>7,453</u>	<u>6,244</u>
	<u>\$ 162,837</u>	<u>\$ 144,265</u>
 An analysis of amortization by function		
Operating costs	\$ 2,695	\$ 2,632
Selling and marketing expenses	10	44
General and administrative expenses	2,515	2,403
Research and development expenses	<u>1,399</u>	<u>1,454</u>
	<u>\$ 6,619</u>	<u>\$ 6,533</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits		
Salary expense	\$ 444,167	\$ 393,545
Insurance expense	<u>43,986</u>	<u>38,267</u>
	<u>488,153</u>	<u>431,812</u>
Post-employment benefits		
Defined contribution plans	17,849	16,394
Defined benefit plans	<u>610</u>	<u>819</u>
	18,459	17,213
Other employee benefits	<u>27,080</u>	<u>24,038</u>
	<u>45,539</u>	<u>41,251</u>
 Total employee benefits expense	<u>\$ 533,692</u>	<u>\$ 473,063</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 401,518	\$ 348,828
Operating expenses	<u>132,174</u>	<u>124,235</u>
	<u>\$ 533,692</u>	<u>\$ 473,063</u>

		For the Year Ended December 31					
		2019			2018		
Nature	Function	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Salary expense		\$ 330,975	\$ 110,642	\$ 441,617	\$ 287,442	\$ 104,538	\$ 391,980
Insurance expense		34,944	9,042	43,986	29,564	8,703	38,267
Pension		14,729	3,730	18,459	13,474	3,739	17,213
Remuneration of directors and supervisors		-	2,550	2,550	-	1,565	1,565
Other employee benefits		<u>20,870</u>	<u>6,210</u>	<u>27,080</u>	<u>18,348</u>	<u>5,690</u>	<u>24,038</u>
Total employee benefits expense		<u>\$ 401,518</u>	<u>\$ 132,174</u>	<u>\$ 533,692</u>	<u>\$ 348,828</u>	<u>\$ 124,235</u>	<u>\$ 473,063</u>

As of December 31, 2019 and 2018, the number of the Company's employees was 954 and 869, respectively. For the years ended December 31, 2019 and 2018, the average number of the Company's employees was 933 and 835, respectively, among which 6 and 4 were non-employee directors, and its calculation basis is consistent with employee benefits expense.

Average employee benefits expense for the years ended December 31, 2019 and 2018 were \$573 thousand and \$567 thousand, respectively. Average salary expense for the years ended December 31, 2019 and 2018 were \$476 thousand and \$472 thousand, respectively. The rate of increase of average salary expense was 0.85%.

f. Employees' compensation and remuneration of directors and supervisors

According to the Company's Articles, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 3% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, which have been approved by the Company's board of directors on January 10, 2020 and January 19, 2019, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	4.49%	6.47%
Remuneration of directors and supervisors	0.40%	0.72%

Amount

	For the Year Ended December 31	
	2019	2018
	Cash	Cash
Employees' compensation	\$ 25,000	\$ 19,000
Remuneration of directors and supervisors	2,240	2,120

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

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

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

g. Gains or losses on foreign currency exchange

	<u>For the Year Ended December 31</u>	
	2019	2018
Foreign exchange gains	\$ 16,280	\$ 26,483
Foreign exchange losses	<u>(20,922)</u>	<u>(13,784)</u>
Net gains (losses)	<u>\$ (4,642)</u>	<u>\$ 12,699</u>

22. INCOME TAXES

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Current tax		
In respect of the current period	\$ 71,182	\$ 51,750
Income tax on unappropriated earnings	-	4,672
Adjustments for prior periods	<u>(342)</u>	<u>(178)</u>
	70,840	56,244
Deferred tax		
In respect of the current period	(118)	1,184
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>(1,297)</u>
Income tax expense recognized in profit or loss	<u>\$ 70,722</u>	<u>\$ 56,131</u>

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Profit before tax	<u>\$ 529,842</u>	<u>\$ 272,484</u>
Income tax expense calculated at the statutory rate (20%)	\$ 105,968	\$ 54,496
Nondeductible expenses in determining taxable income	410	96
Tax-exempt income	(35,443)	(2,668)
Temporary differences	129	1,010
Income tax on unappropriated earnings	-	4,672
Effect of tax rate changes	-	(1,297)
Adjustments for prior years' tax	<u>(342)</u>	<u>(178)</u>
Income tax expense recognized in profit or loss	<u>\$ 70,722</u>	<u>\$ 56,131</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%.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
Effect of change in tax rate	\$ -	\$ 373
In respect of the current year		
Translation of financial statements of foreign operations	1,330	-
Remeasurement of defined benefit plans	<u>482</u>	<u>231</u>
Total income tax recognized in other comprehensive income	<u>\$ 1,812</u>	<u>\$ 604</u>

c. Current tax liabilities

	December 31	
	2019	2018
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 45,119</u>	<u>\$ 31,133</u>

d. Deferred tax assets

The movements of deferred tax assets were as follows:

For the year ended December 31, 2019

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Defined benefit obligation	\$ 5,049	\$ (1,351)	\$ 482	\$ 4,180
Allowance for loss on inventories	3,740	36	-	3,776
Unrealized exchange losses	41	903	-	944
Unrealized overhead	1,374	(165)	-	1,209
Payables for annual leave	1,508	695	-	2,203
Exchange differences on translating the financial statements of foreign operations	<u>-</u>	<u>-</u>	<u>1,330</u>	<u>1,330</u>
	<u>\$ 11,712</u>	<u>\$ 118</u>	<u>\$ 1,812</u>	<u>\$ 13,642</u>

For the year ended December 31, 2018

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Defined benefit obligation	\$ 5,119	\$ (674)	\$ 604	\$ 5,049
Allowance for loss on inventories	2,927	813	-	3,740
Unrealized exchange losses	540	(499)	-	41
Unrealized overhead	882	492	-	1,374
Payables for annual leave	-	1,508	-	1,508
Loss carryforwards	<u>1,527</u>	<u>(1,527)</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,995</u>	<u>\$ 113</u>	<u>\$ 604</u>	<u>\$ 11,712</u>

d. Income tax assessments

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

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2019	2018
Basic earnings per share	<u>\$ 6.95</u>	<u>\$ 3.28</u>
Diluted earnings per share	<u>\$ 6.92</u>	<u>\$ 3.26</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2019	2018
Earnings used in the computation of basic earnings per share and diluted earnings per share	<u>\$ 459,120</u>	<u>\$ 216,353</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousands of Shares)

	<u>For the Year Ended December 31</u>	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	66,015	66,015
Effect of potentially dilutive ordinary shares:		
Employees' compensation	<u>364</u>	<u>307</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>66,379</u>	<u>66,322</u>

If the Company offered to settle compensation paid to employees in cash or shares, the Company assumed the entire amount of the compensation would 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, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

24. NON-CASH TRANSACTIONS

During the years ended December 31, 2019 and 2018, the Company entered into the following non-cash investing activities which were not reflected in the statements of cash flows:

- a. The Company reclassified prepayments for equipment (included in other current assets) of \$64,878 thousand and \$27,648 thousand to property, plant and equipment during the years ended December 31, 2019 and 2018, respectively.
- b. The amount of cash paid for the acquisition of property, plant and equipment included a decrease of \$106,251 thousand and \$121,316 thousand of payables for equipment purchased (included in other payables) during the years ended December 31, 2019 and 2018, respectively.

25. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stockholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, capital surplus, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

26. FINANCIAL INSTRUMENTS

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

Management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values, or their fair values cannot be reliably measured.

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

The Company did not have financial assets and financial liabilities that are measured at fair value as of December 31, 2019 and 2018.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets</u>		
Financial assets measured at amortised cost (Note 1)	<u>\$ 580,736</u>	<u>\$ 585,039</u>
<u>Financial liabilities</u>		
Financial liabilities measured at amortized cost (Note 2)	<u>\$ 877,965</u>	<u>\$ 1,183,190</u>

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable and other receivables.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, accounts payable, other payables and long-term borrowings (including the current portion).

d. Financial risk management objectives and policies

The Company's major financial instruments include accounts receivable, accounts payable, borrowings and lease liabilities.

The Company's finance department provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

Refer to Note 29 for the carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period.

Sensitivity analysis

The Company was mainly exposed to the fluctuation of the U.S. dollar, Japanese yen, Euro, Chinese yuan, Swiss franc and Australian dollar.

The sensitivity analysis details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e., the functional currency) against the relevant foreign currencies. A sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. For a 1% appreciation of the New Taiwan dollar against the relevant currency, post-tax profit for the years ended December 31, 2019 and 2018 would have decreased by \$2,714 thousand and \$2,250 thousand, respectively. For a 1% depreciation of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on post-tax profit.

b) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at floating interest rates.

Sensitivity analysis

The sensitivity analysis was determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis point (0.1%) increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Company's post-tax profit for the years ended December 31, 2019 and 2018 would decrease/increase by \$328 thousand and \$654 thousand, respectively, which was mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company adopted a policy of only dealing with creditworthy counterparties, however, in order to minimize credit risk, 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 Company 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 Company's credit risk was significantly reduced.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Company had available unutilized loan facilities set out in (b) below.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods.

December 31, 2019

	1-3 Months	3 Months to 1 Year	1-3 Years	3+ Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing liabilities	\$ 300,726	\$ 27,240	\$ -	\$ -
Lease liabilities	3,027	9,082	24,145	529,581
Variable interest rate liabilities	<u>30,000</u>	<u>50,000</u>	<u>470,000</u>	<u>-</u>
	<u>\$ 333,753</u>	<u>\$ 86,322</u>	<u>\$ 494,145</u>	<u>\$ 529,581</u>

Additional information about the maturity analysis for lease liabilities is set out below:

	Less than 1 Year	1 Year to 5 Years	5 years to 10 Years	10 Years to 15 Years	15 Years to 20 Years	20+ Years
Lease liabilities	<u>\$12,109</u>	<u>\$48,217</u>	<u>\$60,180</u>	<u>\$60,180</u>	<u>\$60,180</u>	<u>\$324,969</u>

December 31, 2018

	1-3 Months	3 Months to 1 Year	1-3 Years	3+ Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing liabilities	\$ 442,070	\$ 21,120	\$ -	\$ -
Variable interest rate liabilities	<u>-</u>	<u>113,804</u>	<u>526,995</u>	<u>79,201</u>
	<u>\$ 442,070</u>	<u>\$ 134,924</u>	<u>\$ 526,995</u>	<u>\$ 79,201</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities were subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank overdraft facilities which may be extended by mutual agreement		
Amount used	\$ 80,000	\$ 50,000
Amount unused	<u>320,000</u>	<u>400,000</u>
	<u>\$ 400,000</u>	<u>\$ 450,000</u>
Secured bank overdraft facilities which may be extended by mutual agreement		
Amount used	\$ 470,000	\$ 670,000
Amount unused	<u>1,030,000</u>	<u>930,000</u>
	<u>\$ 1,500,000</u>	<u>\$ 1,600,000</u>

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations. Therefore, there is no liquidity risk of being unable to raise sufficient funds to fulfill contractual obligations.

27. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are summarized below:

a. Related party name and category

<u>Name</u>	<u>Category</u>
Zhi-Qun Co., Ltd.	Common chairman with the Company
Ren Chung	Chairman of the Company
Medimarcas Asia Ltd.	Related party in substance

b. Lease arrangements - Group is lessee

Acquisition of right-of-use assets

	Related Party	For the Year Ended December 31	
		2019	2018
Ren Chung		<u>\$ 216</u>	<u>\$ -</u>

Line Item	Related Party	December 31	
		2019	2018
Lease liabilities	Ren Chung	<u>\$ 145</u>	<u>\$ -</u>

Related Party	<u>For the Year Ended December 31</u>	
	2019	2018
<u>Interest expense</u>		
Ren Chung	\$ <u>2</u>	\$ <u>-</u>
<u>Rent expense</u>		
Ren Chung	\$ <u>-</u>	\$ <u>73</u>

c. Lease arrangements - Group is lessor

The Company leases out land and buildings to Zhi-Qun Co., Ltd. The lease term is from 2017 to February 2021. As of December 31, 2019 and 2018, the gross future lease payments to be received are \$26 thousand. Lease income recognized for the years ended December 31, 2019 and 2018 were \$24 thousand.

d. Other transactions with related parties

The collection of accounts receivable made by Medimarcas Asia Ltd. on behalf of the Company for the years ended December 31, 2019 and 2018 were \$15,067 thousand and \$13,106 thousand, respectively.

e. Compensation of key management personnel

	<u>For the Year Ended December 31</u>	
	2019	2018
Short-term employee benefits	\$ <u>38,166</u>	\$ <u>35,212</u>

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets have been provided as collateral for short-term and long-term bank loan facilities.

	<u>December 31</u>	
	2019	2018
Non-current assets held for sale	\$ 256,557	\$ 117,564
Land and buildings, net	1,135,259	1,395,512
Investment properties	<u>92,490</u>	<u>92,798</u>
	\$ <u>1,484,306</u>	\$ <u>1,605,874</u>

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2019		
	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Foreign currency denominated assets</u>			
Monetary items			
USD	\$ 8,042	29.98	\$ 241,108
JPY	230,989	0.276	63,753
EUR	625	33.59	21,004
RMB	2,253	4.305	9,701
AUD	88	21.005	1,847
CHF	94	30.925	<u>2,921</u>
			<u>\$ 340,334</u>

Foreign currency denominated liabilities

Monetary items			
USD	37	29.98	<u>\$ 1,116</u>

	December 31, 2018		
	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Foreign currency denominated assets</u>			
Monetary items			
USD	\$ 6,682	30.715	\$ 205,237
JPY	122,351	0.2782	34,038
EUR	509	35.20	17,904
RMB	2,916	4.472	13,041
AUD	365	21.665	7,900
CHF	122	31.185	<u>3,795</u>
			<u>\$ 281,915</u>

Foreign currency denominated liabilities

Monetary items			
USD	20	30.715	<u>\$ 629</u>

For the years ended December 31, 2019 and 2018, realized net foreign exchange (loss) gain was \$76 thousand and \$12,494 thousand, respectively, and unrealized net foreign exchange (loss) gain was \$(4,718) thousand and \$205 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 of the Company.

30. SEPARATELY DISCLOSED ITEMS

Information on significant transactions and investees:

- a. Financing provided to others: None.
- b. Endorsements/guarantees provided: None.
- c. Marketable securities held at the end of the reporting period (excluding investments in subsidiaries): None.
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None.
- e. Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: Table 1.
- g. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- i. Trading in derivative instruments: None.
- j. Others: Intercompany relationships and significant intercompany transactions: None.
- k. Information on investees: Table 2.
- l. Information on investments in mainland China: Table 3.

PACIFIC HOSPITAL SUPPLY CO., LTD. AND SUBSIDIARIES

**DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

Seller	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain (Loss) on Disposal	Counterparty	Relationship	Purpose of Disposal	Price Reference	Other Terms
Pacific Hospital Supply Co., Ltd.	Land and buildings	2019/7/31	2010/6/23	\$ 117,564	\$ 320,000 (Note 1)	Note 2	\$ 189,684 (Note 3)	P&D POLYESTER INDUSTRIAL COMPANY, LTD.	None	Improve the Group's financial structure, revitalize assets and increase fund.	Evaluation report issued by Euroasia Real Estate Appraisers Firm	

Note 1: The transaction amount includes taxes.

Note 2: Property ownership transfer process and the payment collection were completed on October 18, 2019.

Note 3: Expenses related to the ownership transfer have been deducted from gain on disposal.

PACIFIC HOSPITAL SUPPLY CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee (Note 1)	Share of Profits (Loss) (Note 2)	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount			
Pacific Hospital Supply Co., Ltd.	Pacific Hospital Supply (Changzhou) Co., Ltd.	Changzhou (China)	Medical device and equipment manufacturing and sales business	\$ 149,232	\$ -	-	100	\$ 141,939	\$ (642)	\$ (642)	

Note 1: Amount is recognized based on the financial statements of the investee company for the year ended December 31, 2019 which is audited by the CPA.

Note 2: Refer to Table 3 for information on investments in Mainland China.

PACIFIC HOSPITAL SUPPLY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee (Note 2)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
Pacific Hospital Supply (Changzhou) Co., Ltd.	Medical device and equipment manufacturing and sales business	\$ 149,232	Direct invest in China	\$ -	\$ 149,232	\$ -	\$ 149,232	\$ (642)	100	\$ (642)	\$ 141,939	\$ -	

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$149,232	\$269,820 (US\$9,000 thousand) (Note 1)	\$1,531,075 (Note 3)

Note 1: The amount is converted using the exchange rate as of the reporting date of USD:NTD = 1:29.98.

Note 2: Amount is recognized based on the financial statements of Pacific Hospital Supply (Changzhou) Co., Ltd. which is audited by parent company's CPA.

Note 3: The upper limit on investment is determined by 60% of the Company's consolidated net value.

PACIFIC HOSPITAL SUPPLY CO., LTD.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

<u>Item</u>	<u>Statement Index</u>
Major Accounting Items in Assets, Liabilities and Equity	
Statement of cash and cash equivalents	1
Statement of notes receivable	2
Statement of accounts receivable	3
Statement of other receivables	Note 7
Statement of inventories	4
Statement of non-current assets held for sale	Note 9
Statement of current assets	5
Statement of changes in investments accounted for using the equity method	Table 1
Statement of changes in property, plant and equipment	Note 11
Statement of changes in accumulated depreciation of property, plant and equipment	Note 11
Statement of changes in investment properties	Note 13
Statement of changes in accumulated depreciation of investment properties	Note 13
Statement of changes in other intangible assets	Note 14
Statement of deferred tax assets	Note 22
Statement of refundable deposits	Note 15
Statement of short-term loans	Note 16
Statement of notes payable	6
Statement of accounts payable	7
Statement of other payables	Note 17
Statement of contract liabilities	8
Statement of long-term loans	Note 16
Statement of guarantee deposits	Note 17
Major Accounting Items in Profit or Loss	
Statement of operating revenue	9
Statement of operating costs	10
Statement of factory overheads	11
Statement of operating expenses	12
Statement of other gains and losses	Note 21
Statement of finance costs	Note 21
Statement of employee benefits, depreciation and amortization by function	Note 21

STATEMENT 1**PACIFIC HOSPITAL SUPPLY CO., LTD.****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Description	Amount
Cash on hand		\$ 666
Bank deposits		
Checking accounts and demand deposits		181,665
Foreign currency demand deposits	Includes: US\$4,372,995.29, JPY98,620,112.12, RMB1,666,643.26, AUD89,739.2, EUR364,519.29, and CHF63,860.8, Exchange rates: US\$1=29.98, JPY1=0.276, RMB1=4.305, AUD1=21.005, EUR1=33.59, and CHF1=30.925, respectively.	181,600
Foreign currency time deposits	US\$1,500,000, exchanged using exchange rate US\$1=29.98.	<u>44,970</u>
		<u>\$ 408,901</u>

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENT OF NOTES RECEIVABLE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Customer	Description	Amount
Unrelated parties		
Chain Wave Co., Ltd.	Payments for goods	\$ 7,219
Huiqun Supply Co., Ltd.	Payments for goods	3,672
Sun Health Medical Supply Co., Ltd.	Payments for goods	2,840
Kangtian Medical Supply Co., Ltd.	Payments for goods	1,090
Pinwei Engineering Co., Ltd.	Payments for goods	961
Others (Note)		2,495
Less: Allowance for doubtful accounts		<u>-</u>
		<u>\$ 18,277</u>

Note: The amount from each individual customer included in others does not exceed 5% of the account balance.

PACIFIC HOSPITAL SUPPLY CO., LTD.**STATEMENT OF ACCOUNTS RECEIVABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Customer	Description	Amount
Unrelated parties		
Customer A	Payments for goods	\$ 13,614
Customer B	Payments for goods	10,207
Customer C	Payments for goods	7,620
Customer D	Payments for goods	7,477
Customer E	Payments for goods	7,199
Others (Note 1)		<u>100,833</u>
		146,950
Less: Allowance for doubtful accounts (Note 2)		<u>-</u>
		<u>\$ 146,950</u>

Note 1: The amount from each individual customer included in others does not exceed 5% of the account balance.

Note 2: It is an allowance for bad debt based on the Company's accounts receivable evaluation policy.

STATEMENT 4

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENT OF INVENTORIES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Net Realizable Value
Finished goods	\$ 108,341	\$ 151,380
Work in process	27,393	27,393
Raw materials	<u>179,897</u>	<u>185,537</u>
	<u>\$ 315,631</u>	<u>\$ 364,310</u>

Note: The amount of inventory write-downs as of December 31, 2019 was \$18,882 thousand.

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENT OF OTHER CURRENT ASSETS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Supplies inventory		\$ 1,708
Input tax		1,449
Prepayments		<u>1,410</u>
		<u>\$ 4,567</u>

PACIFIC HOSPITAL SUPPLY CO., LTD.**STATEMENT OF NOTES PAYABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Supplier	Description	Amount
Unrelated parties		
Medipack Medical Packaging Mfg. Co.	Payments for goods	\$ 251
Yichang Metal Industrial Co., Ltd.	Payments for goods	159
Super Cable Industrial Co., Ltd.	Payments for goods	125
Two-Way Trading Corp.	Payments for goods	46
Others (Note)		<u>319</u>
		<u>\$ 900</u>

Note: The amount for each individual supplier included in others does not exceed 5% of the account balance.

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENT OF ACCOUNTS PAYABLE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Supplier	Description	Amount
Unrelated parties		
Kao YI Plastics Enterprise Co., Ltd.	Payments for goods	\$ 8,604
Tzon Shang Enterprise Co., Ltd.	Payments for goods	8,579
Ge Fong Industry Co., Ltd.	Payments for goods	7,528
Others (Note)		<u>117,920</u>
		<u>\$ 142,631</u>

Note: The amount for each individual supplier included in others does not exceed 5% of the account balance.

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENT OF CONTRACT LIABILITIES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Customer	Description	Amount
Customer F	Receipts in advance	\$ 7,690
Customer G	Receipts in advance	3,483
Others (Note)		<u>15,894</u>
		<u>\$ 27,067</u>

Note: The amount for each individual customer included in others does not exceed 5% of the account balance.

STATEMENT 9

PACIFIC HOSPITAL SUPPLY CO., LTD.

**STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Quantity	Amount
Sales revenue		
Tubes	57,560,322 pcs	\$ 1,015,997
Sleeves	6,030,207 pcs	413,531
Bags	3,018,346 pcs	187,041
Apparatus	312,467 pcs	107,484
Devices	6,027,307 pcs	123,422
Bottles	633,652 pcs	41,842
Others	10,695,175 pcs	<u>160,403</u>
Total operating revenue		2,049,720
Less: Sales returns and allowances		<u>9,077</u>
Net operating revenue		<u>\$ 2,040,643</u>

PACIFIC HOSPITAL SUPPLY CO., LTD.**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Amount
Balance, beginning of the year	\$ 170,084
Raw material purchased	763,015
Work in process transferred to raw materials	820,600
Raw materials, end of the year	(197,448)
Transferred to expenses or losses	(18,307)
Loss on raw materials	(68)
Raw materials scrapped	(3,979)
Sales of raw materials	(23,098)
Others	<u>132</u>
Raw materials used	1,510,931
Direct labor cost	224,624
Factory overheads	<u>486,034</u>
Manufacturing cost	2,221,589
Work in process, beginning of the year	42,426
Finished goods transferred to work in process	24,096
Work in process processed	53,309
Work in process, end of the year	(27,412)
Work in process transferred to raw materials	(820,600)
Others	<u>(39,777)</u>
Finished goods	1,453,631
Finished goods, beginning of the year	76,009
Finished goods purchased	7,612
Finished goods, end of the year	(109,652)
Finished goods transferred to work in process	(24,096)
Transferred to expenses or losses	(926)
Finished goods scrapped	(563)
Others	<u>1,896</u>
Cost of finished goods sold	1,403,911
Sales of raw materials	23,098
Others	<u>32,877</u>
Cost of goods sold	1,459,886
Scrap revenue	(2,918)
Inventory write-downs	182
Loss on physical inventory	68
Disposal of inventories	<u>4,542</u>
Operating costs	<u>\$ 1,461,760</u>

PACIFIC HOSPITAL SUPPLY CO., LTD.

**STATEMENT OF FACTORY OVERHEADS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Amount
Payroll	\$ 106,351
Depreciation	150,241
Processing cost	32,837
Insurance	35,858
Utilities	32,932
Miscellaneous expenses	48,863
Others (Note)	<u>78,952</u>
	<u>\$ 486,034</u>

Note: The amount for each item in others does not exceed 5% of the account balance.

PACIFIC HOSPITAL SUPPLY CO., LTD.**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

	Selling Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Payroll	\$ 22,974	\$ 73,015	\$ 20,934	\$ 116,923
Freight	14,323	37	52	14,412
Import and export costs	9,463	4	4	9,471
Participation fee	3,465	-	-	3,465
Commission	3,915	-	-	3,915
Insurance	2,167	5,676	1,801	9,644
Depreciation	260	4,883	7,453	12,596
Professional fees	3,497	3,522	1,476	8,495
Miscellaneous expenses	12,242	5,939	2,776	20,957
Others (Note)	<u>6,374</u>	<u>14,724</u>	<u>8,194</u>	<u>29,292</u>
	<u>\$ 78,680</u>	<u>\$ 107,800</u>	<u>\$ 42,690</u>	<u>\$ 229,170</u>

Note: The amount for each item in others does not exceed 5% of the account balance.