Luhai Holding Corp. and Subsidiaries

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

國富浩華聯合會計師事務所
Crowe (TW) CPAs
40308 台中市西區台灣大道
二段285號15樓
15F., No.285, Sec.2, Taiwan
Blvd., West Dist.,
Taichung City 40308,Taiwan
Tel +886 4 36005588
Fax +886 4 36005577
www.crowe.tw

Independent Auditors' Report

The Board of Directors and Shareholders
LUHAI HOLDING CORPORATION

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

1. Transactions relating to relocation

Please refer to Note 6(16) for the accounting policies on transactions relating to relocation.

Luhai Rubber Metal Industrial (Kunshan) Co., Ltd., a subsidiary of Luhai Holding Corp., signed a relocation agreement with the local government for the need of local railway construction. Per the agreement, Luhai Rubber Metal Industrial (Kunshan) Co., Ltd. shall deliver the immovable items including the land use right, buildings, and other immovable equipment by specified deadlines and will receive compensation income paid in installments. Luhai Rubber Metal Industrial (Kunshan) Co., Ltd. deferred the net proceeds, equal to compensation revenue less expenses relating to the relocation. Deferred income is recognized in profit or loss upon the transfer of the immovable items and upon the completion of the second stage of relocation. Because the impact of the transactions on the Group's consolidated financial statements is significant and the terms and conditions of the agreement are complicated, subject to judgements, the transactions have been identified as a key audit matter.

Our key audit procedures included obtaining the relocation agreement signed with the local government and reviewing the content of the agreement to gain an understanding of the rights and obligations that Luhai Rubber Metal Industrial (Kunshan) Co., Ltd. has obtained from the relocation compensation, examining relevant meeting minutes of the Board of Directors and checking the consistency with the information provided by the Group's management, sampling the documents and records of compensation revenue and relocation expenses to check the consistency with the terms and conditions of the agreement, and examining the accounting treatments for the transactions and evaluating the appropriateness of those treatments.

2. Credit risk for notes receivable and accounts receivable

As of December 31, 2019, notes and accounts receivable of the Group accounted for 15% of the total assets. Since expected credit loss of notes and accounts receivable is estimated based on receivables that are past due and the relating loss ratio plus forward-looking adjustments, which are subject to the management's judgement. Therefore, the credit risk for notes and accounts receivable has been identified as a key audit matter.

Our key audit procedures included assessing the policies and execution relating to expected credit loss of notes and accounts receivable such as the calculation of loss ratio of the provision matrix; obtaining aging analysis schedules of notes and accounts receivable and selecting samples for confirmation and assessing the accuracy of the aging interval of each receivable; checking whether provision of loss allowance is based on the provision matrix and reviewing documents for forward-looking adjustments as well as subsequent collections to verify the reasonableness of expected credit loss recognized, and assessing whether the disclosures regarding impairment of notes and accounts receivable are appropriate.

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

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

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

Crowe

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the

consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Ming Shou, Lin and Su Chuan, Huang.

Crowe TW CPAs

Crowe (TW) CPAs
The Republic of China

March 12, 2020

__Notice to Readers__

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

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

LUHAI HOLDING CORP. AND SUBSIDIARIES

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

	NOTES	December 31,2019 Amount	%	December 31,2018 Amount	%
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	5,6(1)	$ 1,122,302	27	$ 824,221	24
Financial assets at fair value through profit or loss - current	5,6(2)	202,684	5	44,905	1
Financial assets at amortized cost-current	5,6(3)	86,105	2	214,581	6
Notes receivable, net	5,6(4)	46,999	1	68,713	2
Accounts receivable, net	5,6(5)	587,682	14	597,346	19
Other receivables		10,750	-	9,719	-
Income tax assets		4,643	-	3,839	-
Inventories, net	5,6(6)	615,928	15	565,263	17
Prepaid expenses		54,909	1	41,148	1
Other current assets	6(7)	530	-	27,618	1
Total current assets		2,732,532	65	2,397,353	71
NONCURRENT ASSETS					
Financial assets at fair value through other comprehensive income - noncurrent	6(8)	1,558	-	930	-
Property, plant and equipment	5,6(9)	1,148,538	28	723,273	21
Right-of-use assets	5,6(10)	197,862	5	-	-
Intangible assets	5,6(11)	6,956	-	7,449	-
Deferred income tax assets	5,6(28)	26,262	1	24,715	1
Long-term prepaid rent	6(12)	-	-	193,407	6
Other noncurrent assets	6(13)	32,948	1	36,736	1
Total noncurrent assets		1,414,124	35	986,510	29
TOTAL ASSETS		$ 4,146,656	100	$ 3,383,863	100
LIABILITIES AND EQUITIES					
CURRENT LIABILITIES					
Short-term loans	6(14)	$ -	-	$ 30,715	1
Contract liabilities - current	6(24)	477	-	3,651	-
Accounts payable		264,374	6	293,973	9
Other payables	6(15)	219,317	5	150,982	4
Income tax liabilities		22,942	1	24,326	1
Current lease liabilities	5,6(10)	4,376	-	-	-
Advanced receipts		2,626	-	-	-
Deferred income	5,6(16)	619,044	15	-	-
Long-term loan due within a year	6(17)	207,419	5	61,314	2
Other current liabilities	6(18)	5,392	-	581	-
Total current liabilities		1,345,967	32	565,542	17
NONCURRENT LIABILITIES					
Long-term loans	6(17)	471,313	11	574,292	17
Deferred income tax liabilities	6(29)	19,336	1	11,291	-
Noncurrent lease liabilities	5,6(10)	9,345	-	-	-
Net defined benefit liability - noncurrent	6(19)	-	-	5,134	-
Total noncurrent liabilities		499,994	12	590,717	17
Total liabilities		1,845,961	44	1,156,259	34
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT					
Capital stocks	6(20)	860,632	21	819,650	24
Capital surplus	6(21)	443,701	11	443,701	13
Retained earnings	6(22)				
Legal reserve		160,582	4	139,736	4
Special reserve		282,676	7	228,579	7
Unappropriated retained earnings		922,634	22	878,614	26
Other equities	6(23)	(369,530)	(9)	(282,676)	(8)
Equity attributable to owners of parent		2,300,695	56	2,227,604	66
Total equity		2,300,695	56	2,227,604	66
TOTAL LIABILITIES AND EQUITIES		$ 4,146,656	100	$ 3,383,863	100

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

LUHAI HOLDING CORP. AND SUBSIDIARIES

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

		2019		2018	
	NOTES	Amount	%	Amount	%
NET REVENUE	6(24)	$ 2,716,889	100	$ 2,628,778	100
COST OF REVENUE	6(6,25)	(2,101,831)	(77)	(2,067,723)	(79)
GROSS PROFIT		615,058	23	561,055	21
OPERATING EXPENSES	6(25),7				
Marketing expenses		(101,729)	(4)	(97,372)	(4)
General and administrative expenses		(182,235)	(6)	(163,734)	(6)
Research and development expenses		(29,410)	(1)	(25,589)	(1)
Expected credit (loss) reversal		10,951	-	(5,018)	-
Total operating expenses		(302,423)	(11)	(291,713)	(11)
OPERATING INCOME		312,635	12	269,342	10
NONOPERATING INCOME AND EXPENSES					
Other income	6(26)	28,368	1	37,469	1
Other gains and losses	6(27)	17,829	1	2,357	-
Financial costs	6(28)	(12,994)	(1)	(11,999)	-
Total nonoperating income and expenses		33,203	1	27,827	1
INCOME BEFORE INCOME TAX		345,838	13	297,169	11
INCOME TAX EXPENSE	6(29)	(103,928)	(4)	(88,706)	(3)
NET INCOME (LOSS)		241,910	9	208,463	8
OTHER COMPREHENSIVE INCOME (LOSS)	6(30)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation	6(19)	-	-	(1,184)	-
Unrealized profit (loss) from equity instrument at fair value through other comprehensive income		688	-	(209)	-
Income tax benefit (expense) related to items that will not be reclassified subsequently	6(29)	-	-	(24)	-
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations		(87,542)	(3)	(54,135)	(2)
Income tax benefit (expense) related to items that may be reclassified subsequently	6(29)	-	-	-	-
Other comprehensive income (loss) for the year, net of income tax		(86,854)	(3)	(55,552)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		$ 155,056	6	$ 152,911	6
NET INCOME ATTRIBUTTABLE TO:					
Shareholders of the parnet		$ 241,910	9	$ 208,463	8
TOTAL COMPREHENSIVE INCOME ATTIRBUTABLE TO:					
Shareholders of the parnet		$ 155,056	6	$ 152,911	6
EARNINGS PER SHARE:	6(31)				
Basic earnings per share		$ 2.81		$ 2.42	
Diluted earnings per share		$ 2.81		$ 2.38	

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

LUHAI HOLDING CORP. AND SUBSIDIARIES

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

	Equity Attributable to Shareholders of the Parent							
			Retained Earnings			Other Equities		
	Capital Stocks	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings	Exchange Differences Arising on Translation of Foreign Operations	Unrealized Profit (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2018	$ 819,650	$ 443,701	$ 112,321	$ 223,028	$ 827,272	$ (228,579)	$ -	$ 2,197,393
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	247	247
ADJUSTED BALANCE, JANUARY 1, 2018	819,650	443,701	112,321	223,028	827,272	(228,579)	247	2,197,640
Appropriations of earnings								
Legal reserve	-	-	27,415	-	(27,415)	-	-	-
Special reserve	-	-	-	5,551	(5,551)	-	-	-
Cash dividends to shareholders - NT$1.50 per share	-	-	-	-	(122,947)	-	-	(122,947)
Net income in 2018	-	-	-	-	208,463	-	-	208,463
Other comprehensive income (loss) in 2018, net of tax	-	-	-	-	(1,208)	(54,135)	(209)	(55,552)
BALANCE, DECEMBER 31, 2018	819,650	443,701	139,736	228,579	878,614	(282,714)	38	2,227,604
Appropriations of earnings								
Legal reserve	-	-	20,846	-	(20,846)	-	-	-
Special reserve	-	-	-	54,097	(54,097)	-	-	-
Cash dividends to shareholders - NT$1.00 per share	-	-	-	-	(81,965)	-	-	(81,965)
Stock dividends to shareholders - NT$0.50 per share	40,982	-	-	-	(40,982)	-	-	-
Net income in 2019	-	-	-	-	241,910	-	-	241,910
Other comprehensive income (loss) in 2019, net of tax	-	-	-	-	-	(87,542)	688	(86,854)
BALANCE, DECEMBER 31, 2019	$ 860,632	$ 443,701	$ 160,582	$ 282,676	$ 922,634	$ (370,256)	$ 726	$ 2,300,695

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

LUHAI HOLDING CORP. AND SUBSIDIARIES

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 345,838	$ 297,169
Adjustments for:		
Adjustments to reconcile profit (loss)		
Depreciation	111,077	96,239
Amortization	2,027	5,767
Expected credit loss (reversal)	(10,951)	5,018
Gains on financial assets at fair value through profit or loss	(1,906)	(1,154)
Interest expense	12,994	11,999
Interest income	(14,906)	(16,729)
Dividend income	(85)	(123)
Losses (Gains) on disposal of property, plant and equipment	2,617	(717)
Impairment loss of property, plant and equipment	5,288	-
Net changes in operating assets and liabilities		
Notes receivable	18,551	(26,780)
Accounts receivable	6,032	(28,215)
Other receivables	(3,425)	(3,663)
Inventories	(67,015)	46,437
Prepaid expenses	(15,907)	(11,486)
Other current assets	(8)	(323)
Conrtract liabilities	(3,236)	2,523
Accounts payable	(19,970)	51,875
Other payables	16,707	(12,021)
Other current liabilities	(368)	141
Net defined benefit liability	(5,134)	(38)
Cash generated from operations	378,220	415,919
Interest received	16,913	18,671
Dividend received	85	123
Interest paid	(12,623)	(9,890)
Income taxes paid	(99,154)	(101,910)
Net cash provided by operating activities	283,441	322,913

(Continued)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	$ (312,976)	$ (109,073)
Proceeds from disposal of financial assets at fair value through profit or loss	149,302	82,754
Acquisition of financial assets at amortized cost	(849,507)	(509,005)
Proceeds from disposal of financial assets at amortized cost	974,697	509,005
Acquisition of property, plant and equipment	(449,819)	(155,621)
Proceeds from disposal of Property, plant and equipment	10,713	7,376
Increase in advanced receipts	2,727	-
Acquisition of intangible assets	(1,779)	(916)
Increase in land use right	-	(114,295)
Increase in prepaid equipment	(71,851)	(22,787)
Refundable deposits (paid) refunded	24,455	(28,123)
Other noncurrent assets	(4,353)	530
Proceeds from relocation compensation	662,180	-
Payments of relocation expenses	(12,540)	-
Net cash provided by (used in) investing activities	121,249	(340,155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	(30,226)	(27,979)
Increase in guarantee deposits received	5,365	-
Proceeds from long-term debt	306,715	656,470
Repayment of long-term debt	(257,109)	(181,227)
Repayment of bonds payable	-	(398,800)
Cash dividends paid	(81,965)	(122,947)
Repayments of the principal portion of lease liabilities	(4,558)	-
Net cash used in financing activities	(61,778)	(74,483)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(44,831)	(11,385)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	298,081	(103,110)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	824,221	927,331
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,122,302	$ 824,221

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

1. GENERAL INFORMATION

Luhai Holding Corp. (the "Company") was incorporated in the Cayman Islands in October 19, 2009. The main purpose of establishment, which resulted from organizational restructuring, was to apply for emerging stock registration on the Taiwan Stock Exchange ("TWSE"). The Company had established a branch in consideration of the Group's business operation and development. The Company and its subsidiaries (collectively referred herein as the "Group") mainly engage in the production and sale of tire valves and accessories. The Company's shares have been listed on the TWSE since December 25, 2013. The principal operating activities of the subsidiaries are described in Note 4(3) B.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on March 12, 2020.

3. APPLICATION OF NEW, AMENDED STANDARDS AND INTERPRETATIONS

(1) Effect of the adoption 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, whenever applied, 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 would not have any material impact on the Group's accounting policies:

A. IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that 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.

The Group applies 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 indentified 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.

<u>The Group as lessee</u>

The Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal and interest portion of the lease liability are classified within financing activities and operating activities respectively. Previsously, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China and Indonesia are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group applying IFRS 16 retrospectively with the cumulative effect of the initial application recognized at the date of initial application but does not restate comparative information.

Lease agreements classified as operating leases under IAS 17, except for short-term leases, are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets are subject to impairment testing under IAS 36.

The Group applied the following practical expedients to measure right-of-use assets and lease liabilities on January 1, 2019:

(a)The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

(b)Except for lease payments, the Group excluded incremental costs of obtaining the lease from right-of-use assets on January 1, 2019.

(c)Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

<u>Anticipated impact on assets, liabilities and equity</u>

Item	Carrying Amount as of January 1, 2019	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid expenses	$ 41,148	$ (1,139)	$ 40,009
Long-term prepaid rent	193,407	(193,407)	-
Right-of-use assets	-	212,739	212,739
Total effect on assets	$ 234,555	$ 18,193	$ 252,748
Current Lease liabilities	$ -	$ 4,454	$ 4,454
Noncurrent Lease liabilities	-	13,739	13,739

Item	Carrying Amount as of January 1, 2019	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Total effect on liabilities	$ -	$ 18,193	$ 18,193

(2) Effect of the new issuances of or amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs as endorsed by the FSC but not yet adopted by the Group:

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

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

Note 1: The Group shall apply these amendments to business combinations and assets acquisition that occur on or after January 1, 2020.

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

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

The Group has no plans to acquire any business in 2020, therefore it is not expected to have any effect on the consolidated financial statements when the amendment to IFRS 3 is first applied in 2020 and the amendments to IAS 1 and IAS 8 are assessed as having no effect on the consolidated financial statements. The Group is not engaged in hedging transaction, so the amendments to IFRS 9, IAS 39 and IFRS 7 is assessed as having no effect on the consolidated financial statements. However, the estimated impact of the above-mentioned amendments may be subject to change due to future operating environment or program changes.

(3) The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC:

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

Note 1: Unless stated otherwise, the above new, amended and revised standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the Regulation Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs as endorsed by the FSC.

(2) Basis of Preparation

A. The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

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

C. The Group elected to apply IFRS 16 retrospectively on January 1,2019 with the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings of the annual reporting.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

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

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

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

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings as appropriate, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Percentage of ownership December 31, 2019	Percentage of ownership December 31, 2018
The Company	LU HAI （BVI） INDUSTRIAL CORP. （LU HAI BVI）	Investing activities	100.00%	100.00%
The Company	YUANHUI INTERNATIONAL CO., LTD. （YUANHUI）	Investing activities	100.00%	100.00%
The Company	ALLPRO INTERNATIONAL CORP. （ALLPRO）	Investing activities	100.00%	100.00%
The Company	LU HAI INDUSTRIAL CORP. （LU HAI IND.）	Leasing and selling various kinds of valves and accessories	100.00%	100.00%
The Company	MEGA POWER CO., LTD. （MEGA ）	Selling activities	100.00%	100.00%
The Company	PT.LUHAI INDUSTRIAL （PT.LUHAI）	Manufacturing and selling various kinds of valves and accessories	85.00%	85.00%
YUANHUI	LUHAI RUBBER METAL INDUSTRIAL （KUNSHAN） CO., LTD. （LUHAI KUNSHAN）	Manufacturing and selling various kinds of valves and accessories	100.00%	100.00%
LU HAI BVI	XIAMEN XIAHUI RUBBER METAL IND. CO., LTD. （XIAHUI）	Manufacturing and selling various kinds of valves and accessories	57.14%	57.14%
ALLPRO	XIAHUI	Manufacturing and selling various kinds of valves and accessories	42.86%	42.86%
LU HAI IND.	PT.LUHAI	Manufacturing and selling various kinds of	15.00%	15.00%

Name of investor	Name of subsidiary	Main business activities	Percentage of ownership December 31, 2019	Percentage of ownership December 31, 2018
		valves and accessories		

The financial statements of the subsidiaries included in the consolidated financial statements for the years ended December 31, 2019 and 2018 are audited by certified public accountants.

C. The subsidiaries that were not included in the consolidated financial statements: None.

(4) Foreign Currencies

A. Items included in the financial statements of each of the Group's entities were expressed in the currency which reflected its primary economic environment (functional currency). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

B. In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity'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 are recognized in profit or loss for the period. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income is retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are measured using the historical exchange rates at the dates of the initial transactions.

C. For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into NTD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

(5) Classification of Current and Noncurrent Items

A. Assets that meet one of the following criteria are classified as current assets:

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

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the end of reporting period.

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the end of reporting period.

The Group classifies all assets that do not meet the above criteria as non-current.

B. Liabilities that meet one of the following criteria are classified as current liabilities:

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

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the end of reporting period.

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

The Group classifies all liabilities that do not meet the above conditions as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. 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

A regular way purchase or sale of financial assets shall be recognized and derecognized using trade date accounting.

(a) Measurement category

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, financial assets at amortized cost and equity instruments at fair value through other comprehensive income.

i. Financial assets at fair value through profit or loss

Financial assets at FVTPL includes financial assets mandatorily classified as at FVTPL and financial assets designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments that are not designated as at fair value through other comprehensive income (FVOCI) and debt instruments that do not meet the amortized cost criteria or the FVOCI criteria.

Financial assets of the Group were designated as at fair value through profit or loss on initial recognition when they meet either of the following criteria:

(a)being a hybrid contract; or

(b)eliminating or significantly reducing a measurement or recognition inconsistency;

(c)being managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 12.

ii. Financial assets at amortized cost

Financial assets that meet the following 2 conditions are subsequently measured at amortized cost:

(i.) The financial asset is held within a business model whose objective is collecting contractual cash flows; and

(ii.) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

iii. Investments in equity instruments at fair value through other comprehensive income

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

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

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

(b) Impairment of financial assets

At the end of each reporting period, an impairment of expected credit loss is recognized for financial assets at amortized cost (including accounts receivable), investment of debt instruments at fair value through other comprehensive income, lease receivable and contract assets.

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such financial asset.

(c) Derecognition of financial assets

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

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

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

iii. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset.

On derecognition of a financial asset at amortized cost in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in debt instrument at fair value through other comprehensive income, the difference between the asset's carrying amount and the sum of the consideration received and receivable as well as the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at fair value through other comprehensive income, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without reclassifying to profit or loss.

B. Financial liabilities and equity instruments

(a) Classification of financial liabilities and equity instruments

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

(b) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

(c) Financial liabilities

Except for the following circumstances, all financial liabilities are measure at amortized cost under effective interest method:

i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or designated as financial liabilities at fair value through profit or loss on initial recognition. Financial liabilities are classified as held for trading if the principal purpose of acquisition is repurchasing in the short term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

ii. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(d) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

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

(e) Bonds payable

Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares) and call options. The Group initially classifies the bonds payable in accordance with derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument. Convertible corporate bonds are accounted for as follows:

i. Call options embedded in convertible corporate bonds issued by the Group are initially recognized at net fair value in financial assets at fair value through profit or loss and subsequently remeasured and stated at fair value on each balance sheet date. The gain or loss is recognized in gain or loss from financial assets (liabilities) at fair value through profit or loss.

ii. Bonds payable of convertible corporate bond is initially recognized at fair value. The difference between the proceeds and the redemption value is presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to financial costs over the period of bond circulation using the effective interest method.

iii. Conversion options embedded in convertible corporate bonds issued by the Group, which meet the definition of an equity instrument, are initially recognized in capital surplus – share options at the residual amount of total issue price less amounts of financial assets at fair value through profit or loss and bonds payable. Conversion options are not remeasured subsequently. If the conversion options of convertible corporate bonds have not been exercised as of expiration dates, the amount recognized in equity will be transferred to capital surplus - other.

iv. Any transaction costs directly attributable to the issuance of convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

v. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and financial assets at fair value through profit or loss) shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of capital surplus – share options.

(8) Inventories

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

(9) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

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

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each end of reporting year. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

Buildings	5~35 years
Machinery	3~20 years
Other equipment	2~20 years

D. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(10) Leases

2019

The Group assesses whether the contract is (or includes) a lease at the date of the contract.

The Group as lessee

Except for payments for low-value asset leases and short-term leases which are recognized as expenses on a straight-line basis, the Group recognized right-of-use assets and lease liabilities for all leases at the commencement date of lease.

Right-of-use assets are measured at cost. The cost of right-of-use assets comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus an estimate of costs needed to restore the underlying assets. Subsequent measurement is calculated as cost less accumulated depreciation and accumulated impairment loss and adjusted for changes in lease liabilities as a result of lease term modification or other related factors. Right-of-use assets are presented separately in the consolidated balance sheets.

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

Lease liabilities are measured at the present value of the lease payments. If the implied interest rate on the lease is easy to determine, the lease payment is discounted using that interest rate. If the interest rate is not easy to determine, the lessee's increase borrowing rate is used.

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 future lease payments resulting from a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. If the carrying amount has been reduced to zero, the remaining amount will recognize in the profit and loss. Lease liabilities are presented separately in consolidated balance sheets.

2018

A. Leases are classified as finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

B. Operating leases are lease other than finance lease. Lease payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(11) Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis over the following estimated lives: 3 to 10 years for computer software; trademarks and patents based on the economic benefit or contract period. The estimated useful life and amortization method are reviewed at each end of reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(12) Impairment of non-financial assets

The Group assesses at the end of reporting period the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset or a 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.

(13) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date. The discount rate shall be a pre-tax rate that reflect(s) current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as interest expense. Provisions are not recognised for future operating losses.

In addition, levies imposed by governments are recognized as provisions once the transaction or activity that triggers a levy occurs. If the obligation to pay a levy occurs over time, a levy is recognised as provisions progressively over time. If an obligation to pay a levy is triggered when a minimum threshold is reached, the levy is recognized when the threshold is reached.

(14) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

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

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

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' compensation and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by board of directors meeting subsequently, the differences should be recognized based on the accounting for changes in estimates.

D. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense when it can no longer withdraw an offer of termination benefits or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

(15) Capital stock

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of stock or options are deducted from the capital issued.

(16) Income tax

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

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the financial reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense when the actual appropriation of earnings is resolved by the shareholders meeting held in the next year.

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

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences, deductible loss, and unused tax credit can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

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

(17) Revenue recognition

When applying IFRS 15, the Group shall recognize revenue by applying the following steps:

A. Identify the contract with the customer;

B. Identify the performance obligations in the contract;

C. Determine the transaction price;

D. Allocate the transaction price to the performance obligations in the contract; and

E. Recognize revenue when the entity satisfies a performance obligation.

For contracts where the period between the date the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is within one year, the Group does not adjust the consideration for the effects of a significant financing component.

A. Sale of goods

The Group sells various valve and accessory products. Sales are recognized when control of the products has been transferred to the customers since the customers obtain the rights to list price, use the products and assure the obligation to resale them as well as to bear the risk of obsolescence. The Group recognizes revenue and accounts receivable on transferring the control of the products. Revenue is presented net of sales return, quantity discounts and sales allowance.

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

B. Service income

Service income is recognized when services are provided.

(18) Government grants

Government grants are recognized at fair value when the Group will comply with the conditions attached to them and will receive the grants. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using to straight-line method.

(19) 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 stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The preparation of the Group's consolidated financial statements is adopting accounting policies based on the following significant judgements, significant accounting estimates and assumptions:

(1) Key judgments for accounting policy application

A. Business model assessment for financial assets

The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance, and how the managers are compensated. The Group continuously assesses whether the business model for the remaining financial assets held continues to be appropriate and monitors financial assets at amortized cost or at fair value through other comprehensive income. When assets are derecognized prior to their maturity, the Group analyzes the reasons for their disposal and assesses whether the reasons are consistent with the objective of the business model. If there has been a change in the business model, the Group adjusts the classifications of financial assets obtained afterwards.

B. Lease terms - 2019

In determining the lease term, the Group considers all the facts and circumstances that create an economic incentive to exercise (or not exercise) the option, including all expected change in facts and circumstances from the commencement date until the exercise date of the option. Factors considered include the contractual terms and conditions for the optional period, the significant leasehold improvements made (or expected) during the contract period, and the importance of the underlying assets to the Group's operations, etc. The lease term is reassessed if a significant change in circumstance that are within the control of the Group occurs.

(2) Key accounting estimates and assumptions

A. Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment assessment based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash flows are less than expected, a material impairment loss may arise.

B. Impairment of Tangible and Intangible Assets

In the process of evaluating the potential impairment of tangible and intangible assets, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the way assets are used and nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future years.

C. Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Group's subjective judgment and estimate, including the future revenue growth and profitability, tax holidays, the amount of tax credits can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

D. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date based on judgments and estimates. The Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. The net realizable value of inventory is mainly determined based on assumptions of future demand within a specific period, the assumptions might change in the future and may result in significant differences in its realizable value.

E. Lessee's incremental borrowing rates - 2019

In determining a lessee's incremental borrowing rate used in discounting lease payment, the risk-free interest rate of the same currency and period is used as the reference rate, and the estimated lessee's credit risk spread and lease specific adjustment (such as asset status and secured factors) are taken into account.

F. Deferred income

The compensation from relocation to be received according to the agreement and the expense related to the relocation is recognized as deferred income. Since the derecognition of the immovable items including land use right, buildings and some equipment, recognition of related relocation expenses, and the timing of the recognition of the compensation income to profit or loss from relocation involve estimates, any changes in economic environment and relevant laws and regulations may lead to significant adjustments in deferred income.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31	
Item	2019	2018
Cash on hand	$ 657	$ 464
Checking accounts and demand deposits	352,425	352,852
Time deposits	769,220	470,905
Total	$ 1,122,302	$ 824,221

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

B. Please refer to Note 12 for relating credit risk management and assessment.

(2) Financial assets at fair value through profit or loss - current

	December 31	
Item	2019	2018
Mandatorily measured at FVTPL		
Nonderivative financial assets		
Financial instruments with guaranteed principle and floating yield	$ 202,684	$ 44,905

The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Financial assets at amortized cost - current

	December 31	
Item	2019	2018
Financial instruments with guaranteed principle and defined yield	$ 86,105	$ 214,581

A. The Group has no financial assets at amortized cost pledged to others.

B. Please refer to Note 12 for relating credit risk management and assessment.

(4) Notes receivable, net

Item	December 31 2019		December 31 2018	
At amortized cost	$	48,383	$	68,713
Less: Loss allowance		(1,384)		-
Notes receivable, net	$	46,999	$	68,713

A. The Group has no notes receivable pledged to others.

B. As of December 31, 2019 and 2018, notes receivable being accepted by banks were $31,384 thousand and $54,994 thousand, respectively.

C. Please refer to Note 6(5) for the information on loss allowance for notes receivable.

(5) Accounts receivable, net

Item	December 31 2019		December 31 2018	
At amortized cost	$	593,001	$	615,693
Less: Loss allowance		(5,319)		(18,347)
Accounts receivable, net	$	587,682	$	597,346

A. The Group has no accounts receivable pledged to others.

B. The average credit period of sales of goods ranges from 14 to 90 days, which is determined by reference to the credit granting policy based on the counterparties' industrial characteristics, operation scales and profitability. Where appropriate ask customers to pay in advance, as a means of mitigatingthe risk of financial loss from defaults.

C. The Group applies the simplified approach to providing expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables 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, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base. The Group takes into account the future prospect of market and assess the loss allowance for notes and accounts receivable using loss ratio established based on historical and timely information plus forwarding-looking adjustments.

D. The loss allowance for the Group's notes and accounts receivables based on the provision matrix is as follows:

December 31, 2019

Aging interval	Rate of expected credit loss	Gross carrying amount	Loss allowance (lifetime expected credit loss)	Amortized cost
Not past due	0.18%	$ 598,961	$ (2,430)	$ 596,531
Past due within 30 days	3.38%	28,373	(959)	27,414
Past due 31-60 days	6.21%	4,163	(259)	3,904
Past due 61-90 days	11.03%	5,842	(644)	5,198
Past due 91-180 days	24.07%	2,152	(518)	1,634
Past due over 181 days	100%	1,893	(1,893)	-
Total		$ 641,384	$ (6,703)	$ 634,681

December 31, 2018

Aging interval	Rate of expected credit loss	Gross carrying amount	Loss allowance (lifetime expected credit loss)	Amortized cost
Not past due	0.18%	$ 599,405	$ (1,007)	$ 598,398
Past due within 30 days	3.38%	24,315	(822)	23,493
Past due 31-60 days	6.21%	16,478	(1,023)	15,455
Past due 61-90 days	11.03%	12,618	(1,392)	11,226
Past due 91-180 days	24.07%	23,031	(5,544)	17,487
Past due over 181 days	100%	8,559	(8,559)	-
Total		$ 684,406	$ (18,347)	$ 666,059

The Group has not held any collateral or other credit enhancement for these notes and accounts receivable.

E. Movements of loss allowance for notes and accounts receivable are as follows:

	Years ended December 31	
Item	2019	2018
Balance, January 1	$ 18,347	$ 13,702
Provision for impairment	1,200	6,685
Reversal of impairment	(12,151)	(1,667)
Write-offs	(511)	-
Effect of exchange rate changes	(182)	(373)
Balance, December 31	$ 6,703	$ 18,347

The Group has recognized an appropriate amount of loss allowance complying with the Group's policies as of December 31, 2019 and December 31, 2018.

F. Please refer to Note 12 for relating credit risk management and assessment.

(6) Inventories and cost of goods sold

Item	December 31 2019		December 31 2018	
Merchandise	$	74,335	$	62,079
Finished goods		84,115		89,925
Work in process		218,908		165,227
Raw materials		136,660		140,581
Supplies		32,118		32,145
Inventory in transit		69,792		75,306
Total	$	615,928	$	565,263

A. The cost of inventories recognized as expense for the period:

Item	Years Ended December 31 2019		Years Ended December 31 2018	
Loss on decline (gain on reversal) in market value of inventories	$	(370)	$	1,122
Unallocated overhead		21,158		11,270
Gain on inventory taking		(704)		(754)
Loss on inventory disposed		200		352
Total	$	20,284	$	11,990

The reversal in market value of the Group's inventories as for 2019 is mainly due to decline in the amount of slow-moving inventory and increase in the copper price.

B. The Group has no inventory pledged to others.

(7) Other current assets

Item	December 31 2019		December 31 2018	
Refundable deposits	$	-	$	27,091
Other		530		527
Total	$	530	$	27,618

XIAHUI signed a contract for the land use right of Jeimei District, Xiamen in January, 2018. According to the contract, the construction of the land use right should be done before October, 2021, and the deposit for the construction amounted to RMB 6,060 thousand had been paid and recognized in other non-current assets. The Government of Xiamen City abolished the deposit system since December, 2018. Therefore, the deposit was reclassified to other current asset, and was returned to XIAHUI in March, 2019.

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

Item	December 31 2019		December 31 2018	
Equity instruments				
Unlisted stocks	$	1,558	$	930

A. These investments in equity instruments are held for medium-to-long term strategic purposes and were thus classified as financial assets at fair value through other comprehensive income.

B. The Group has no financial assets at fair value through other comprehensive income pledged to others.

(9) Property, plant and equipment

Item	December 31, 2019	December 31, 2018
Land	$ 7,567	$ 7,567
Buildings	327,983	323,247
Machinery	1,043,913	978,565
Other equipment	134,657	125,773
Equipment to be inspected and construction in progress	476,727	85,538
Total cost	1,990,847	1,520,690
Less: Accumulated depreciation and impairment	(842,309)	(797,417)
Property, plant and equipment, net	$ 1,148,538	$ 723,273

	Land	Buildings	Machinery	Other equipment	Equipment to be inspected and construction in progress	Total
Cost						
Balance, January 1, 2019	$ 7,567	$ 323,247	$ 978,565	$ 125,773	$ 85,538	$ 1,520,690
Additions	-	2,642	39,448	13,830	446,165	502,085
Disposals	-	-	(38,539)	(9,693)	-	(48,232)
Reclassification	-	9,427	100,104	8,723	(36,858)	81,396
Effect of exchange rate difference	-	(7,333)	(35,665)	(3,976)	(18,118)	(65,092)
Balance, December 31, 2019	$ 7,567	$ 327,983	$ 1,043,913	$ 134,657	$ 476,727	$ 1,990,847
Accumulated depreciation and impairment						
Balance, January 1, 2019	$ -	$ (168,539)	$ (540,298)	$ (88,580)	$ -	$ (797,417)
Depreciation expense	-	(16,838)	(74,108)	(11,757)	-	(102,703)
Impairment loss	-	-	(5,288)	-	-	(5,288)
Disposal	-	-	27,635	7,267	-	34,902
Effect of exchange rate difference	-	4,960	20,476	2,761	-	28,197
Balance, December 31, 2019	$ -	$ (180,417)	$ (571,583)	$ (90,309)	$ -	$ (842,309)
Cost						
Balance, January 1, 2018	$ 7,567	$ 313,431	$ 921,220	$ 117,436	$ 30,524	$ 1,390,178
Additions	-	2,284	40,797	6,913	104,234	154,228
Disposals	-	(77)	(41,245)	(3,545)	-	(44,867)
Reclassification	-	14,349	79,492	7,582	(47,418)	54,005
Effect of exchange rate difference	-	(6,740)	(21,699)	(2,613)	(1,802)	(32,854)
Balance, December 31, 2018	$ 7,567	$ 323,247	$ 978,565	$ 125,773	$ 85,538	$ 1,520,690

	Land	Buildings	Machinery	Other equipment	Equipment to be inspected and construction in progress	Total
Accumulated depreciation and impairment						
Balance, January 1, 2018	$ -	$ (156,186)	$ (518,940)	$ (80,999)	$ -	$ (756,125)
Depreciation expense	-	(15,524)	(68,170)	(12,545)	-	(96,239)
Disposals	-	13	35,091	3,104	-	38,208
Effect of exchange rate difference	-	3,158	11,721	1,860	-	16,739
Balance, December 31, 2018	$ -	$ (168,539)	$ (540,298)	$ (88,580)	$ -	$ (797,417)

A. In response to the growth of sales and the planning to expand the plant, the Group engaged China City Investment Construction Group to build plants and an administration building on the land of Jeimei District, Xiamen. The contract price is RMB 151,880 thousand. The construction began in December, 2018 and is expected to complete in the first half of year 2020.

B. The Group has no property, plant and equipment pledged to others.

C. Please refer to Note 6(28) for the information on interest capitalization.

D. Please refer to Note 6(16) for the relocation of LUHAI KUNSHAN.

(10) Lease agreement

A. Right-of-use assets - 2019

Item	December 31,2019
Land	$ 187,307
Buildings	18,618
Total cost	205,925
Less: Accumulated depreciation and impairment	(8,063)
Right-of-use assets, net	$ 197,862

	Land	Buildings	Total
Cost			
Balance, January 1, 2019	$ -	$ -	$ -
Adjustments arising from initial application of IFRS 16	193,407	19,332	212,739
Balance, January 1, 2019 (Adjusted)	193,407	19,332	212,739
Effect of exchange rate difference	(6,100)	(714)	(6,814)
Balance, December 31, 2019	$ 187,307	$ 18,618	$ 205,925
Accumulated depreciation and impairment			
Balance, January 1, 2019	$ -	$ -	$ -
Adjustments arising from initial application of IFRS 16	-	-	-

	Land	Buildings	Total
Balance, January 1,2019 (Adjusted)	$ -	$ -	$ -
Depreciation expense	(4,077)	(4,297)	(8,374)
Effect of exchange rate difference	151	160	311
Balance, December 31, 2019	$ (3,926)	$ (4,137)	$ (8,063)

The Group has no right-of-use assets pledged to others.

B. Lease liabilities - 2019

Item	December 31,2019
Current lease liabilities	$ 4,376
Noncurrent lease liabilities	$ 9,345

Ranges of discount rates for lease liabilities are as follows:

Item	December 31,2019
Buildings	3.65%

Please refer to Note 6(28) for interest on lease liabilities.

C. Material lease-in activities and terms

Right-of-use assets include building leased by XIAHUI and the land use rights in China and Indonesia owned by XIAHUI, LUHAI KUNSHAN and PT. LUHAI. The land use right was originally recognized in long-term prepaid rent. Please refer to Note 3 and Note 6(12) for information of the land use right in 2018 and its reclassification.

XIAHUI leased some buildings with the lease terms from 2018 to 2023. XIAHUI is not allowed to sublease the buildings to others without the permission of the lessor.

LUHAI KUNSHAN and XIAHUI signed land use right contract with Jiangsu government and Xiamen government with the lease terms of 40 to 50 years. PT. LUHAI obtained the land use right of Serang, Indonesia. The aforementioned land is used to build plants, office buildings and employees' dormitories.

Please refer to Note 6(16) for the relocation of LUHAI KUNSHAN.

D. Other lease information

2019

Item	Year ended December 31,2019
Short-term lease expense	$ 1,777
Total cash outflow for leases	$ (6,335)

The Group applied the recognition exemption to short-term leases and low-value asset leases and did not recognized right-of-use assets and lease liabilities for these leases.

2018

The Group leases land use rights under non-cancellable operating lease agreements. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

Item	December 31,2018
Within 1 year	$ 4,864
1-5 years	17,418
Total	$ 22,282

(11) Intangible assets

Item	December 31 2019	December 31 2018
Software	$ 16,754	$ 16,315
Trademark	408	424
Patent	175	181
Total cost	17,337	16,920
Less: Accumulated amortization	(10,381)	(9,471)
Intangible assets, net	$ 6,956	$ 7,449

	Year Ended December 2019			
	Software	Trademark	Patent	Total
Cost				
Balance, January 1, 2019	$ 16,315	$ 424	$ 181	$ 16,920
Additions	1,779	-	-	1,779
Disposals	(876)	-	-	(876)
Effect of exchange rate difference	(464)	(16)	(6)	(486)
Balance, December 31, 2019	$ 16,754	$ 408	$ 175	$ 17,337
Accumulated amortization				
Balance, January 1, 2019	$ (9,017)	$ (313)	$ (141)	$ (9,471)
Amortization expense	(1,967)	(42)	(18)	(2,027)
Disposals	876	-	-	876
Effect of exchange rate difference	222	13	6	241
Balance, December 31, 2019	$ (9,886)	$ (342)	$ (153)	$ (10,381)

	Year Ended December 2018			
	Software	Trademark	Patent	Total
Cost				
Balance, January 1, 2018	$ 16,488	$ 433	$ 185	$ 17,106
Additions	916	-	-	916
Disposals	(833)	-	-	(833)
Effect of exchange rate difference	(256)	(9)	(4)	(269)
Balance, December 31, 2018	$ 16,315	$ 424	$ 181	$ 16,920
Accumulated amortization				
Balance, January 1, 2018	$ (8,396)	$ (277)	$ (126)	$ (8,799)

	Year Ended December 2018			
	Software	Trademark	Patent	Total
Amortization expense	$ (1,562)	$ (43)	$ (18)	$ (1,623)
Disposals	833	-	-	833
Effect of exchange rate difference	108	7	3	118
Balance, December 31, 2018	$ (9,017)	$ (313)	$ (141)	$ (9,471)

The Group has no intangible assets pledged to others.

(12) Long-term prepaid rents-2018

Item	December 31,2018
Land use right	$ 193,407

The Group has no long-term prepaid rents pledged to others.

(13) Other noncurrent assets

	December 31	
Item	2019	2018
Prepaid of equipment	$ 19,528	$ 29,804
Refundable deposits	4,864	2,405
Other noncurrent assets	8,556	4,527
Total	$ 32,948	$ 36,736

(14) Short-term loans

	December 31	
The nature of borrowings	2019	2018
Unsecured borrowings	$ -	$ 30,715
Interest rates	-	3.90%

The Group does not provide any asset as a collateral for short-term borrowings.

(15) Other payables

	December 31	
Item	2019	2018
Salaries and bonus payable	$ 73,289	$ 62,221
Consumption expense payable	30,146	23,799
Construction and equipment payable	56,663	4,397
Insurance payable	14,173	14,303
Sales tax payable	2,380	4,611
Outsourced expense payable	11,215	11,111
Compensation payable of employees, directors and supervisors	7,713	6,688
Other	23,738	23,852

Item	December 31	
	2019	2018
Total	$ 219,317	$ 150,982

(16) Deferred Income

Item	December 31	
	2019	2018
Compensation income for relocation	$ 637,618	$ -
Relocation cost		
Economic compensation to employees	(9,091)	-
Expenses of moving and installing assets	(8,012)	-
Others	(1,471)	-
Subtotal	(18,574)	-
Deferred income, net	$ 619,044	$ -

At the request of the local government for the need of constructing S1 rails, the Board of Directors authorized the chairman to sign the relocation agreement per applicable laws and regulations. The relocation agreement had been signed by Kunshan Huaqiao Weimin House Demolition Limited Company (Weimin Company) and LUHAI KUNSHAN in November, 2019. The content includes compensation for the expropriation of the land use right, plant, buildings and equipment (collectively referred to as “the immovable items”), cessation of production and business, termination of labor contracts and expenses related to relocation. Main clauses are as follows:

A. The total compensation amounts to RMB 185,128 thousand.

B. Weimin Company shall pay 50% of the total compensation, which equals to RMB 92,564 thousand, within 10 days once the agreement is signed. 30% of the total compensation, which equals to RMB 55,538 thousand, shall be paid when the certificates for the use of land and for building are submitted. LUHAI KUNSHAN is obligated to transfer the immovable items before April 30^{th}, 2020 and Weimin Company shall pay the remaining 20% of the total compensation, which amounts to RMB 37,026 thousand. As of December 31, 2019, LUHAI KUNSHAN had received 80% of the total compensation which is 637,618 thousand (RMB 148,102 thousand) and is included in deferred income.

C. Loss from disposal of the immovable items, termination of labor contracts and related relocation expenses are recognized as a deduction of deferred income on occurrence. Deferred income begins to be recognized in profit or loss upon the transfer of the immovable items and the completion of the second stage of relocation.

D. The agreement also states that Weimin Company shall assist LUHAI KUNSHAN with obtaining 36 mu (approximated to 5.93 acres) of land use right within 2 years once the agreement is signed, or the aforementioned compensation would be increased. The increase in compensation includes defined amount including financial incentive for signing the contract, relocation bonus and compensation for not providing land amounting to RMB 86,661 thousand, plus a compensation of 30% of evaluated price for movable equipment, and an extra compensation based on the actual expenditure or loss from the termination of labor contracts and rent expenses for plants and factories during the transition period.

E. According to the relocation agreement, if Weimin Company finishes settling the land, yet LUHAI KUNSHAN has not completed the construction of new factories, LUHAI KUNSHAN will have to pay RMB 60,000 thousand as damages.

(17) Long-term loans and long-term loans due within a year

	December 31	
The nature of borrowings	2019	2018
Secured borrowings	$ 678,732	$ 635,606
Less: Current portion	(207,419)	(61,314)
Total	$ 471,313	$ 574,292
Interest rates	0.9%-3.30%	0.9%-4.01%
Maturity date	2020 to 2023	2019 to 2023

A. The Group does not provide any asset as a collateral for long-term borrowings.

B. According to loan agreements with banks, the Company and XIAHUI should maintain certain agreed financial ratios. The Company and XIAHUI have not breached the agreements as of December 31, 2019 and 2018.

(18) Other current liabilities

	December 31	
Item	2019	2018
Guarantee deposits received	$ 5,166	$ -
Other	226	581
Total	$ 5,392	$ 581

The deposits received are from public bidding for building the power supply of XIAHUI's new plants.

(19) Retirement benefit plans

A. Defined contribution plans

(a)The Company and LU HAI IND. adopted a pension plan under the Labor Pension Act, which is a state-managed defined contribution plan. The Group make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

(b)The foreign subsidiaries also make contribution in accordance with the rate specified in the plans in the local regulations, which is a defined contribution plan.

(c)A total expense of $19,136 thousand and $19,887 thousand were recognized in accordance with rate specified in defined contribution plans in consolidated comprehensive income statement as of December 31, 2019 and 2018.

B. Defined benefit plans

(a)The Company and LU HAI IND. adopted the pension plan under the Labor Standards Law, which is a government managed defined benefit plan, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and LU HAI IND. make contributions, equal to 2% of total monthly salaries, to a pension fund which are administered by Labor Pension Fund Supervisory Committee (the Committee) and deposited in the name of the Company's and LU HAI IND.'s Committee in the Bank of Taiwan. Before the end of each year, the Company and LU HAI IND. assess 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 qualified to retirement requirements in the next year, the Company and LU HAI IND. are required to fund the difference in one deposit by 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 and LU HAI IND. have no right to influence the investment policy and strategy

(b)The Company and LU HAI IND. set March 31st, 2019 as record date to pay off the retirement payment with the employees and the labor pension account had been cancelled with the consent of the authority. The appropriated pension amounts to 285 thousand had been refunded.

(c)Amounts recognized in the consolidated balance sheets in respect of these defined benefit plans were as follows:

	December 31	
Item	2019	2018
Present value of defined benefit obligation	$ -	$ 9,298
Fair value of plan assets	-	(4,164)
Net defined benefit liability	$ -	$ 5,134

(d)Movement in the net defined benefit liability were as follows:

Year ended December 31, 2019: None.

	Year ended December 31, 2018		
Item	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance, January 1, 2018	$ 7,820	$ (3,832)	$ 3,988
Service cost			
Current service cost	91	-	91

Item	Year ended December 31, 2018 Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Interest expense (income)	$ 102	$ (51)	$ 51
Recognized in profit or loss	193	(51)	142
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	-	(101)	(101)
Actuarial (gain) loss arising from changes in financial assumptions	551	-	551
Actuarial (gain) loss arising from experience adjustments	734	-	734
Recognized in other comprehensive income	1,285	(101)	1,184
Contributions from employer	-	(180)	(180)
Benefits paid	-	-	-
Balance, December 31, 2018	$ 9,298	$ (4,164)	$ 5,134

The pension costs of the defined benefit plans were recognized in profit or loss by the following items:

Item	Years ended December 31 2019	2018
Marketing expenses	$ 49	$ 21
General and administrative	281	121
Other income	(770)	-
Total	$ (440)	$ 142

(e)Fair value of the plan assets was as follows:

Item	December 31 2019	2018
Cash and cash equivalents	$ -	$ 4,164

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

i. Investment risk

The plan assets are invested in domestic and foreign equity securities, debt securities, and bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor 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.

ii. Interest risk:

A decrease in the government bond and corporation 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.

iii. Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	Measurement date	
	December 31	
Item	2019	2018
Discount rate	-	1.05%
Future salary increase rate	-	2.75%

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

	December 31	
Item	2019	2018
Discount rate		
0.25% increase	$ -	$ (283)
0.25% decrease	-	298
Future salary increase rate		
1% increase	$ -	$ 1,044
1% decrease	-	(1,253)

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.

(20) Capital stocks

A. The Company's movement of outstanding shares and capital were as follows:

Item	Years ended December 31			
	2019		2018	
	Shares (in thousands)	Amount	Shares (in thousands)	Amount
Balance at January 1	81,965	$ 819,650	81,965	$ 819,650
Capitalization of retained earnings	4,098	40,982	-	-
Balance at December 31	86,063	$ 860,632	81,965	$ 819,650

The par value of capital stock is $10 per share; every share has one voting right and the right to receive dividends.

Pursuant to a shareholders' resolution on May 29, 2019, the Company increase its common capital with stock dividends by 40,982 thousand shares, at a par value of $10, the total paid-in capital was $860,632 thousand after capital increment. The capital increment by stock dividends had obtained approval in the BOD's meeting and the effective date of the capital increment was August 9, 2019.

B. The Company's authorized capital was $1,200,000 thousand, consisting of 120,000 thousand shares as of December 31, 2019.

(21) Capital surplus

Item	December 31	
	2019	2018
From merger	$ 44,012	$ 44,012
Additional paid-in capital	349,674	349,674
From convertible bonds	1,033	1,033
From difference between acquisition of interests in subsidiaries and its	28,451	28,451
Share-based payments	2,028	2,028
Other	18,503	18,503
Total	$ 443,701	$ 443,701

Under the Company Act, the capital surplus generated from the excess of the issuance price over the par value of capital stock（including mergers, convertible bonds and difference between acquisition of interests in subsidiaries and its carrying value of equity） and from donations can be used to offset deficit or may be distributed as stock dividends or cash dividends. Under the regulations of the Security Exchange Law, the maximum amount transferred from the foregoing capital surplus to the Company's capital per year shall not be over 10% of the Company's capital surplus. Capital surplus can't be used to offset deficit unless legal reserve is insufficient. The capital surplus from long-term investments may not be used for any purpose.

(22) Retained earnings and earnings appropriation

A. Under the regulation of the earning distribution policy in amended article of incorporation, The Company may distribute profits in accordance with a proposal for distribution of profits prepared by the Directors and approved by the Members by Ordinary Resolution. The Directors shall prepare such proposal as follows: the proposal shall begin with the Company's Annual Net Income and offset its losses in previous years that have not been previously offset; then set aside a Legal Capital Reserve at 10% of the profits left over, until the accumulated Legal Capital Reserve has equaled the total paid-up capital of the Company; then set aside a Special Capital Reserve if one is required in accordance with the Applicable Public Company Rules or as requested by the authorities in charge. If there is net remainder, the Directors may prepare the proposal for distribution of Dividends, bonus or other benefits accounted together with undistributed profits accrued in previous years and submit to the general meeting for review and approval by a resolution.

The Company is currently positioned in a growth and development phase. Due to the need for capital expenditure, operation expansion and an integrated financial planned in order to maintain sustainable growth, any balance left over under the proposal mentioned above may be distributed as Dividends (including cash dividends or stock dividends) or bonuses, among which the Dividends to be distributed shall not be less than 10% of the total amount of Dividends distributed to the shareholders.

B. Legal reserve may be used to offset a deficit or to distribute as dividend in cash or in stock for the portion in excess of 25% of the Company's paid-in capital.

C. Special reserve

	December 31	
Item	2019	2018
Special reserve	$ 282,676	$ 228,579

(a)In accordance with the regulation, the Company shall set aside special reserve from the debit balance on other equity item at the end of the year before distributing earnings. When debit balance on other equity is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b)The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with rule NO.1010012865 issued by the FSC, dated April 6, 2012, shall be reversed proportionately to retained earnings when the relevant assets are used, disposed of or reclassified subsequently.

D. The appropriations of 2018 and 2017 earnings have been approved by shareholders' meetings held on May 29, 2019 and June 25, 2018, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
Item	For Year 2018	For Year 2017	For Year 2018	For Year 2017
Legal reserve	$ 20,846	$ 27,415	$ -	$ -
Special reserve	54,097	5,551	-	-

Item	Appropriation of Earnings For Year 2018	Appropriation of Earnings For Year 2017	Dividends Per Share (NT$) For Year 2018	Dividends Per Share (NT$) For Year 2017
Cash dividends	$ 81,965	$ 122,947	$ 1.00	$ 1.50
Stock dividends	40,982	-	0.50	-
Total	$ 197,890	$ 155,913		

E. The Company’s appropriations of earnings for 2019 had been approved in the meeting of the Board of Directors held on March 12, 2020. The appropriations and dividends per share were as follows:

Item	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 24,191	$ -
Special reserve	86,854	-
Cash dividends	189,339	2.20
Stock dividends	43,032	0.50
Total	$ 343,416	

The appropriations of earnings for 2019 are to be presented for approval in the Company's annual shareholders' meeting to be held on May 29, 2020.

F. Information on proposal and resolution regarding earnings appropriation of the Board of Directors' and shareholders' meetings is available from the "Market Observation Post System" on the website of the TWSE.

(23) Other equity items

Item	Exchange differences on translation of foreign financial statements	Profit (loss) on financial assets at fair value through other comprehensive income	Total
Balance, January 1, 2019	$ (282,714)	$ 38	$ (282,676)
Exchange differences on translation of foreign financial statements	(87,542)	-	(87,542)
Valuation adjustments on financial assets at fair value through other comprehensive income	-	688	688
Balance, December 31, 2019	$ (370,256)	$ 726	$ (369,530)
Balance, January 1, 2018	$ (228,579)	$ -	$ (228,579)
Effect of retrospective application of IFRS 9	-	247	247
Balance, January 1, 2018 (adjusted)	(228,579)	247	(228,332)
Exchange differences on translation of foreign financial statements	(54,135)	-	(54,135)
Valuation adjustments on financial assets at fair value through other comprehensive income	-	(209)	(209)
Balance, December 31, 2018	$ (282,714)	$ 38	$ (282,676)

(24) Net revenue

Item	Years ended December 31 2019	2018
Revenue from contract with customers		
Revenue from sale of goods	$ 2,716,823	$ 2,627,341
Service revenue	66	1,437
Total	$ 2,716,889	$ 2,628,778

A. Description of contract with customers

Revenue from contract with customers mainly derives from sales of valves and accessories and processing fees income from customers. The consideration, fixed and agreed on the contracts, is classified as short-term receivables, and is therefore measured at invoice price.

B. Disaggregation of revenue from contracts with customers

The Group classifies revenue from the following categories of main products:

Item	Year ended December 31, 2019 The Company	XIAHUI	LUHAI KUNSHAN	PT.LUHAI	Others	Eliminations	Total
Main products							
Bicycle valves	$ 30,703	$ 433,427	$ 17,448	$ 71,254	$ 12,870	$ -	$ 565,702
Motorcycle and electric bike valves	17,453	462,122	20,010	358,546	109,471	-	967,602
Passenger car, truck and other valves	48,182	227,563	321,911	33,611	67,343	-	698,610
Accessories and others	12,618	207,050	56,067	178,851	58,711	(28,322)	484,975
Total	$ 108,956	$ 1,330,162	$ 415,436	$ 642,262	$ 248,395	$ (28,322)	$ 2,716,889
Timing of revenue recognition							
Performance obligation satisfied at a point in time	$ 108,956	$ 1,330,107	$ 415,436	$ 642,251	$ 248,395	$ (28,322)	$ 2,716,823
Performance obligation satisfied over time	-	55	-	11	-	-	66
Total	$ 108,956	$ 1,330,162	$ 415,436	$ 642,262	$ 248,395	$ (28,322)	$ 2,716,889

Item	Year ended December 31, 2018 The Company	XIAHUI	LUHAI KUNSHAN	PT.LUHAI	Others	Eliminations	Total
Main products							
Bicycle valves	$ -	$ 335,768	$ 89,100	$ 59,053	$ 38,304	$ -	$ 522,225
Motorcycle and electric bike valves	-	413,528	56,648	344,286	112,335	-	926,797
Passenger car, truck and other valves	-	241,281	324,280	35,353	117,098	-	718,012
Accessories and others	-	183,261	77,580	147,472	71,620	(18,189)	461,744
Total	$ -	$ 1,173,838	$ 547,608	$ 586,164	$ 339,357	$ (18,189)	$ 2,628,778
Timing of revenue recognition							
Performance obligation satisfied at a point in time	$ -	$ 1,173,699	$ 547,608	$ 584,866	$ 339,357	$ (18,189)	$ 2,627,341
Performance obligation satisfied over time	-	139	-	1,298	-	-	1,437

Item	Year ended December 31, 2018						
	The Company	XIAHUI	LUHAI KUNSHAN	PT.LUHAI	Others	Eliminations	Total
Total	$ -	$ 1,173,838	$ 547,608	$ 586,164	$ 339,357	$ (18,189)	$ 2,628,778

C. Contract balances

The Group has recognized the following revenue-related contract liabilities:

Item	Years ended December 31	
	2019	2018
Contract liabilities - current	$ 477	$ 3,651

(25) Employee benefits, depreciation and amortization expense

By nature	Years ended December 31					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	$ 331,444	$ 122,406	$ 453,850	$ 314,712	$ 114,460	$ 429,172
Remuneration to directors	-	4,590	4,590	-	3,954	3,954
Insurance	9,629	5,159	14,788	10,329	5,129	15,458
Pension	14,219	4,477	18,696	15,085	4,944	20,029
Other labor cost	28,004	9,432	37,436	22,901	14,147	37,048
Termination benefits	-	12,212	12,212	-	-	-
Depreciation	97,774	13,303	111,077	88,783	7,456	96,239
Amortization	-	2,027	2,027	-	5,767	5,767
Total	$ 481,070	$ 173,606	$ 654,676	$ 451,810	$ 155,857	$ 607,667

A. According to the Company's Article of Incorporation, if the Company has pre-tax profits in the current year, the Company shall aside not less than 1.5% of the profits as employees' compensation and not more than 3% of the profits as Directors' remuneration. If there is a change in amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

B. The appropriations of employees' compensation and remuneration of directors of 2019 and 2018 have been approved by directors' meeting held on March 12, 2020 and March 13, 2019, respectively. The amounts approved and recognized in financial statements are shown as follows:

	Years ended December 31			
	2019		2018	
	Employees' compensation	Remuneration to directors	Employees' compensation	Remuneration t o directors
Amount resolved to be distributed	$ 3,770	$ 3,770	$ 3,224	$ 3,224
Amount recognized in	3,770	3,770	3,224	3,224

	Years ended December 31			
	2019		2018	
	Employees' compensation	Remuneration to directors	Employees' compensation	Remuneration t o directors
financial statements				
Difference	$ -	$ -	$ -	$ -

The employees' compensation and remuneration to directors of 2019 and 2018 will be paid by cash.

C. Information on employees' compensation and remuneration to directors of the Company as resolved by the meeting of Board of Directors is available from the "Market Observation Post System" at the website of the TWSE.

D. For the years ended December 31, 2019 and 2018, the numbers of employees of the Group were 1,315 and 1,358, respectively. Among them, the numbers of Directors who were not employees were both 6, respectively.

(26) Other income

	Years ended December 31	
Item	2019	2018
Interest income		
Bank deposit	$ 10,213	$ 10,322
Financial assets at amortized cost	4,693	6,407
Subtotal	14,906	16,729
Subsidies	8,560	17,188
Others	4,902	3,552
Total	$ 28,368	$ 37,469

(27) Other gains and losses

	Years ended December 31	
Item	2019	2018
Net currency exchange gains	$ 26,263	$ 4,907
Gains of financial assets at fair value through profit or loss	1,906	1,154
Impairment loss of property, Plant and equipment	(5,288)	-
Gains (losses) on disposal of property, Plant and equipment	(2,617)	717
Other losses	(2,435)	(4,421)
Total	$ 17,829	$ 2,357

(28) Financial costs

	Years ended December 31	
Item	2019	2018
Interest expense		

Item	Years ended December 31 2019	2018
Bank borrowings	$ 15,772	$ 12,703
Convertible bonds	-	1,789
Interest of lease liabilities	612	-
Less: capitalized amount for qualified assets	(3,390)	(2,493)
Financial cost	$ 12,994	$ 11,999
Interest capitalization rates	1.15%-3.99%	1.15%-4.10%

(29) Income tax

A. Income tax expense recognized in profit or loss

Components of income tax expense:

Item	Years ended December 31 2019	2018
Current income tax expense		
Current tax expense recognized in the current year	$ 97,171	$ 94,544
Income tax adjustments on prior years	67	(296)
Additional income tax on unappropriated earnings	521	1,953
Current income tax expense	97,759	96,201
Deferred income tax expense		
Deferred income tax expense (benefit) related to temporary differences	7,677	(7,433)
Unused loss carryforwards	(1,508)	-
Effect of tax rate changes	-	(62)
Deferred income tax expense (benefit)	6,169	(7,495)
Income tax expense	$ 103,928	$ 88,706

B. Income tax expense recognized in other comprehensive income

Item	Years ended December 31 2019	2018
Remeasurement of defined benefit obligations	$ -	$ 24
Exchange differences on translation of foreign operations	$ -	$ -

C. Reconciliation between income tax expense and accounting profit:

Item	Years ended December 31 2019	2018
Income before tax	$ 345,838	$ 297,169
Income tax expense at the statutory rate	$ 93,655	$ 93,607

Item	Years ended December 31 2019	2018
Tax effect of adjusting items:		
Deductible items in determining taxable income	$ 3,516	$ 937
Additional tax on unappropriated earnings	521	1,953
Income tax adjustments on prior years	67	(296)
Net changes on deferred income tax		
Temporary differences	7,677	(7,495)
Unused loss carryforwards	(1,508)	-
Income tax expense recognized in profit or loss	$ 103,928	$ 88,706

Starting from January 1, 2018, the corporate income tax that LU HAI IND. applies will be adjusted from 17% to 20%. In addition, the tax rate applicable to unappropriated earnings will be reduced from 10% to 5%. For other jurisdictions, taxes are calculated using the applicable tax rate for each individual jurisdiction.

D. Deferred tax assets or liabilities resulting from temporary differences:

	Year ended December 31, 2019				
Item	Beginning balance	Recognized in (losses) gains	Recognized in other comprehensive income	Effect of exchange rate changes	Ending Balance
Deferred tax assets (liabilities)					
Temporary differences					
Timing of revenue recognition	$ 1,935	$ (255)	$ -	$ (40)	$ 1,640
Loss allowance	4,556	(2,878)	-	(46)	1,632
Loss on decline (gain on reversal) in market value of inventory	5,210	(74)	-	(146)	4,990
Gain (loss) on foreign Investments accounted For using equity method	(10,715)	(6,784)	-	450	(17,049)
Deferred depreciation expense	5,915	(238)	-	(206)	5,471
Impairment loss	3,951	1,210	-	(191)	4,970
Deferred insurance expense and housing provident fund	2,772	-	-	(102)	2,670
Remeasurement of defined benefit obligation	(558)	558	-	-	-
Other	358	784	-	(48)	1,094
Unused loss carryforwards	-	1,508	-	-	1,508
Total	$ 13,424	$ (6,169)	$ -	$ (329)	$ 6,926

Item	Year ended December 31, 2018				
	Beginning balance	Recognized in (losses) gains	Recognized in other comprehensive income	Effect of exchange rate changes	Ending Balance
Deferred tax assets (liabilities)					
Temporary differences					
Timing of revenue recognition	$ 2,220	$ (236)	$ -	$ (49)	$ 1,935
Loss allowance	3,209	1,442	-	(95)	4,556
Loss on decline (gain on reversal) in market value of inventory	4,974	352	-	(116)	5,210
Gain (loss) on foreign Investments accounted For using equity method	(16,813)	6,515	-	(417)	(10,715)
Deferred depreciation expense	6,596	(547)	-	(134)	5,915
Impairment loss	4,091	(52)	-	(88)	3,951
Deferred insurance expense and housing provident fund	2,833	-	-	(61)	2,772
Remeasurement of defined benefit obligation	(534)	-	(24)	-	(558)
Other	344	21	-	(7)	358
Total	$ 6,920	$ 7,495	$ (24)	$ (967)	$ 13,424

E. As of December 31, 2019, the tax authorities have examined LU HAI IND.'s income tax returns through 2017.

(30) Other comprehensive income

Item	Year ended December 31, 2019		
	Before tax	Income tax (expense) benefit	After tax
Items that will not be reclassified subsequently to profit or loss:			
Unrealized profit (losses) from equity instrument at fair value through other comprehensive income	$ 688	$ -	$ 688
Subtotal	688	-	688
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	$ (87,542)	$ -	$ (87,542)
Subtotal	(87,542)	-	(87,542)
Total	$ (86,854)	$ -	$ (86,854)

Item	Year ended December 31, 2018		
	Before tax	Income tax (expense) benefit	After tax
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	$ (1,184)	$ (24)	$ (1,208)
Unrealized profit (losses) from equity instrument at fair value through other comprehensive income	(209)	-	(209)

Item	Year ended December 31, 2018 Before tax	Income tax (expense) benefit	After tax
Subtotal	$ (1,393)	$ (24)	$ (1,417)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	$ (54,135)	$ -	$ (54,135)
Subtotal	(54,135)	-	(54,135)
Total	$ (55,528)	$ (24)	$ (55,552)

(31) Earnings per share

Item	Years ended December 31 2019	2018
Basic earnings per share		
Net income attributable to shareholders of the parent	$ 241,910	$ 208,463
Net income for calculating basic earnings per share	$ 241,910	$ 208,463
Weighted average number of shares outstanding for the period (in thousand s)	86,063	86,063
Basic earnings per share, after tax (in dollar)	$ 2.81	$ 2.42
Diluted earnings per share		
Net income attributable to shareholders of the parent	$ 241,910	$ 208,463
Effect of dilutive potential common shares		
Convertible bonds	-	1,789
Net income for calculating diluted earnings per share	$ 241,910	$ 210,252
Weighted average number of shares outstanding for the period (in thousand s)	86,063	86,063
Effect of dilutive potential common shares		
Employees' compensation	110	115
Convertible corporate bonds (in thousand shares)	-	2,079
Weighted average shares outstanding for dilutive earnings per share	86,173	88,257
Diluted earnings per share, after tax (in dollar)	$ 2.81	$ 2.38

When calculating earnings per share, the effect of issuance of bonus share has been considered and adjusted retrospectively. Due to the retrospective adjustment, the basic earnings per share attributable to shareholders of the basic and diluted earnings per share has been decreased from $2.54 and $2.50 to $2.42 and $2.38 respectively.

If the Company is able to settle the employee compensation by cash or stocks, the employee compensation should be assumed to be settled in stocks and the resulting potential shares increased should be included in the weighted average shares outstanding in calculation of diluted earnings per share, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the employee compensation by the fair value of the stocks at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted earnings per share until employee compensation are approved in the following year.

7. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation; therefore, those items are not disclosed in this note. The following is a summary of transactions between the Company and other related parties.

(1) Compensation of key management personnel

Item	Years ended December 31	
	2019	2018
Salary and short-term employee benefits	$ 17,197	$ 14,369
Post- employment benefits	189	141
Total	$ 17,386	$ 14,510

8. PLEDGED ASSETS: NONE

9. SIGNIFICANT CONTINGENCIES LIABILITIES AND UNRECOGNIZED COMMITMENTS

(1) Capital expenditures contracted but not yet incurred are as follows：

Item	December 31	
	2019	2018
Property, plant and equipment	$ 352,237	$ 713,762
Deduction of deferred income (relocation cost)	9,291	-
Total	$ 361,528	$ 713,762

(2) Lease commitments with lease terms begin after the end of the reporting period:

Item	December 31	
	2019	2018
Lease commitment	$ 43,914	$ -

(3) Product liability insurance

The Group has entered into a product liability insurance for the product of tubeless valves manufactured by the Group and sold globally. The period of insurance agreement is from March 15, 2019 to March 15, 2020. The insurance policy covers from March 15, 2007 to March 15, 2020. The maximum indemnification amount during the policy covering period is USD $1,000 thousand.

10. SIGNIFICANT DISASTERS: NONE

11. SIGNIFICANT SUBSEQUENT EVENTS

On January 15th, 2020, the Board of Directors of the Group approved that LUHAI KUNSHAN loans RMB 22,000 thousand to XIAHUI by means of entrusted loans.

12. OTHERS

(1) Capital risk management

The Group requires an adequate capital structure to enable the expansion and enhancement of equipment. The Group manages its capital in a manner to ensure that it has sufficient and necessary financial resources and operating plan to fund its working capital needs, capital asset purchases, operation expenses, development expenditure and debt payment requirements associated with its existing operations over the next 12 months.

(2) Financial instruments

A. Financial risks on financial instruments

Financial risk management policies

The Group's daily operation activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. For reducing the financial risk, the Group focus on identifying, assessing, and avoiding the unpredictability of market with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by the Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, the Group’s Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

The Group’s sales, purchase and borrowing activities denominated in foreign currencies are exposed to foreign currency risk. The Group’s mainly functional currency are New Taiwan dollars, RMB and IDR. The foreign currency of those transactions are US dollars, RMB, Euro and so on. To prevent the reduction in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Group uses foreign currency loans and derivative financial instruments (include forward exchange agreement) to avoid foreign exchange risks. The usage of derivative financial instruments can assist the Group to reduce but not completely eliminate the influence of changes in foreign exchange rates.

Foreign currency risk and sensitivity analysis

	December 31										
	2019					2018					
	Foreign currency		Exchange rate	New Taiwan Dollars		Foreign currency		Exchange rate	New Taiwan Dollars		
Financial assets											
Monetary items											
USD	$	19,014	29.98	$	570,032	$	18,213	30.72	$	559,408	
RMB		2,173	4.31		9,355		2,121	4.47		9,482	
EUR		607	33.59		20,391		1,251	35.20		44,035	
Financial liabilities											
Monetary items											
USD	$	17,816	29.98	$	534,137	$	17,891	30.72	$	549,524	
EUR		10,064	33.59		338,034		9,377	35.20		330,078	

The Group is mainly exposed to US dollars, RMB and Euro. The sensitivity analysis rate for the Group is 1% increase and decrease in NTD against the relevant foreign currencies, and the 1% is used when reporting foreign currenct risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1% change in foreign currency rates. An increase/decrease in profit before tax would be resulted where the NTD strengthens/weakens 1% against the relevant currencies with all other variables held constant in the amount of $2,724 and $2,667 for the years ended December 31, 2019 and 2018, respectively.

The Group's foreign exchange gains and losses, including realized and unrealized, for the years ended December 31, 2019 and 2018 were net exchange gain of $26,263 thousand and $4,907 thousand, respectively. Due to the variety of functional currencies, the Group did not disclose the foreign exchange gains (losses) for each foreign currency with significant influence.

ii. Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified as financial assets at fair value through other comprehensive income.

The Group mainly invests in equity instrument of foreign unlisted stocks. The prices of equity securities would change due to the uncertainty of the future value of investee companies.

If the prices of equity securities had increased/decreased by 1% with all other variables held constant, other comprehensive income would have increased/decreased by $16 and $9 thousand since the fair value of financial assets at fair value through other comprehensive income increased/decreased for the years ended December 31, 2019 and 2018.

iii. Interest rate risk

The interest rate risk of financial instruments as of reporting date was as follow:

Item	December 31 2019		December 31 2018	
Fair value interest rate risk				
Financial assets	$	647,812	$	400,703
Financial liabilities		-		-
Net value	$	647,812	$	400,703
Cash flow interest rate risk				
Financial assets	$	559,818	$	637,515
Financial liabilities		(678,732)		(666,321)
Net value	$	(118,914)	$	(28,806)

Sensitivity analysis for instruments with fair value interest rate risk

The Group does not classify any fixed-rate instruments as financial instruments at fair value through profit and loss and financial assets at fair value through other comprehensive income. In addition, the Group does not designate derivatives (interest rate swap) as hedge instruments under hedge accounting. Therefore, the change of interest rate at reporting date does not have influence on profit or loss and other comprehensive income.

Sensitivity analysis for instruments with cash flow interest rate risk

The Group's financial instruments with variable interest rate are those with floating-rate. If interest rate increases (decreases) 1%, the profit before tax will increase (decrease) $1,189 thousand and $288 thousand for the years ended December 31, 2019 and 2018, respectively。

The Group does not utilize derivative financial instruments of interest rate risk as of December 31, 2019.

(b) Credit risk

Credit risk is the risk that counterparty will default on its contractual obligations under a contract leading to a financial loss to the Group. The Group is exposed to credit risk from operation activities, primarily trade receivable, and from investing activities, primarily deposit and other financial instruments with bank. Credit risk is managed separately for business related and financial related exposures.

Business related credit risk

In order to maintain the quality of the trade receivables, the Group established credit risk management procedures related to operations and continues to evaluate. The risk evaluation of individual customers takes into consideration the customers' financial position, internal and external credit ratings and historical transaction records and current economic situation and other factors that may affect the customers' payment ability.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

Financial credit risk

The Group's exposure to financial credit risk which pertained to bank deposits and other financial instruments was evaluated and monitored by Group Treasury function. The Group only deals with creditworthy counterparties and banks, so that no significant financial credit risk was identified.

i. Concentration of credit risk

The Group's concentration of credit risk was related to the customers whose balances of accounts receivable are top 4 of the Group, which accounted for 46% and 41% of the total accounts receivable as of December 31, 2019 and 2018.

ii. Evaluation of expected credit loss

(i.) Accounts receivable: The simplified approach is applied. Please refer to Note 6(5) for relating details.

(ii.) Judgment on whether the credit risk has increased significantly: The Group takes into account the credit rating information provided by external rating agencies and examines the material information of debtors in order to evaluate whether the credit risk of debt instruments has increased significantly.

iii. Holding collaterals and other credit enhancements to hedge the credit risk of its financial assets: None.

iv. Credit risk of financial assets at amortized cost

Please refer to Note 6(5) for information on credit risk exposure of notes and accounts receivable. Other financial assets at amortized cost, including cash and cash equivalents, other receivables, financial instruments with guaranteed principal and defined yield and refundable deposits, are low in credit risk. The loss allowance is assessed based on the 12-month expected credit loss. The Group believes that there is no impairment to financial assets at amortized cost.

(c) Liquidity risk

i. Liquidity risk management

The objective of liquidity risk management is to ensure the Group has sufficient liquidity to fund its business requirements of cash and cash equivalents and the unused of financing facilities associated with existing operations

ii. Maturity profile of financial liabilities

Non-derivative financial liabilities	December 31, 2019 Within 1 year	1-5 years	Over 5 years	Contract cash flows	Carrying value
Accounts payable	$ 264,374	$ -	$ -	$ 264,374	$ 264,374
Other payables	202,764	-	-	202,764	202,764
Lease liabilities	4,477	10,141	-	14,618	13,721
Long-term loans (including long-term loans due within a year)	217,622	481,355	-	698,977	678,732
Guarantee deposits received	5,166	-	-	5,166	5,166
Total	$ 694,403	$ 491,496	$ -	$ 1,185,899	$ 1,164,757

Non-derivative financial liabilities	December 31, 2018 Within 1 year	1-5 years	Over 5 years	Contract cash flows	Carrying value
Short-term loans	$ 31,135	$ -	$ -	$ 31,135	$ 30,715
Accounts payable	293,973	-	-	293,973	293,973
Other payables	132,068	-	-	132,068	132,068
Long-term loans (including long-term loans due within a year)	75,149	590,944	-	666,093	635,606
Total	$ 532,325	$ 590,944	$ -	$ 1,123,269	$ 1,092,362

The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Categories of financial instruments

The carrying amount of each financial asset and financial liability of the Group as of December 31, 2019 and 2018 were as follows:

	December 31 2019	2018
Financial assets		
Financial assets at fair value through profit or loss	$ 202,684	$ 44,905
Financial assets at amortized cost (Note 1)	1,850,119	1,738,473
Financial assets at fair value through other comprehensive income	1,558	930
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	$ 1,151,036	$ 1,092,362

Note 1: The balances include financial assets such as cash and cash equivalents, notes receivable, accounts receivable, other receivables, financial assets at amortized cost and refundable deposits.

Note 2: The balances include accounts payable, other payables, short-term borrowings, guarantee deposits received and long-term borrowings (including long-term borrowings due within 1 year).

(4) Fair value information

A. Fair value measurements are grouped into Levels 1 to 3 as follows:

Level 1: Relevant inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs that used to measure fair value to the extent when relevant observable inputs are not available。

B. Fair values of financial instruments that are not measured at fair value:

The fair value of the Group's financial instruments not measured at fair value includes cash and cash equivalents, notes and accounts receivable, financial assets at amortized cost, other financial assets, refundable deposits, short-term loans, payables, long-term loans (including long-term loans due within one year) and guarantee deposits received whose carrying amount is approximately their fair value.

C. Fair value of financial instruments that are measured at fair value:

The financial instruments are measured at fair value on a recurring basis. The information of fair value is listed as follows:

	December 31, 2019			
Item	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurement				
Financial assets at fair value through profit or loss				
Financial instruments with guaranteed capital and floating yield	$ -	$ 202,684	$ -	$ 202,684
Financial assets at fair value through other comprehensive income				
Equity instruments				
Foreign unlisted stocks	-	-	1,558	1,558
	$ -	$ 202,684	$ 1,558	$ 204,242

Item	December 31, 2018 Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurement				
Financial assets at fair value through profit or loss				
Financial instruments with guaranteed capital and floating yield	$ -	$ 44,905	$ -	$ 44,905
Financial assets at fair value through other comprehensive income				
Equity instruments				
Foreign unlisted stocks	-	-	930	930
	$ -	$ 44,905	$ 930	$ 45,835

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The fair value of financial assets and liabilities traded in an active market is based on the quoted market prices.

(b) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models.

(c) Fair value of equity investment on unlisted stocks without active market was estimated through the market approach that is mainly referenced to the same type of companies' valuation, net assets and state of operation. The significant and unobservable input parameter for assessing the unlisted stocks mainly relates to valuation multiple and liquidity discount rate. Since the possible changes of valuation multiple and liquidity discount rate may not cause significant influence on financial standing, the quantitative information will not be disclosed.

(d) Fair value of other financial assets and financial liabilities (except for the aforementioned) are determined in accordance with generally accepted pricing model based on the discounted cash flow analysis.

E. Transfer between Level 1 and Level 2 of the fair value hierarchy: None

F. Changes in level 3 instruments are as follows:

Item	Years ended December 31 2019	2018
Financial assets at fair value through other comprehensive income		
Balance at January 1	$ 930	$ -
Effect of initial application	-	1,161

Item	Years ended December 31 2019	2018
Recognized in other comprehensive income	$ 688	$ (209)
Effect of exchange rate difference	(60)	(22)
Balance at December 31	$ 1,558	$ 930

G. Sensitivity analysis of Level 3 fair value measurement and assumption of fair value reasonably being substituted: None.

13. SUPPLEMENTARY DISCLOSURES

(1) Disclosure of significant transactions information (before inter-company eliminations)：

A. Financings provided: Please see Table 1 attached;

B. Endorsement/guarantee provided: Please see Table 2 attached;

C. Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): Please see Table 3 attached;

D. Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Please see Table 4 attached;

E. Acquisition of individual real estate properties at costs of at least NT$300 million or 20% of the paid-in capital: None;

F. Disposal of individual real estate properties at prices of at least NT$300 million or 20% of the paid-in capital: Please see Table 5 attached;

G. Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Please see Table 6 attached;

H. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 7 attached;

I. Information on the derivative instrument transactions: None;

J. Intercompany relationships and significant intercompany transactions: Please see Table 8 attached;

(2) Information on investees (before inter-company eliminations): Please see Table 9 attached;

(3) Information on investment in Mainland China

A. The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 10 attached;

B. Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial statements: Please see Table 8 attached.

14. SEGMENT INFORMATION

(1) General information

For the purpose of group management, the Group has provided to the chief operating decision maker the information on resource allocation and assessment of segment performance focuses on the financial information by geographic plants.

(2) Measurement basis

Management monitors the operation results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss before tax and is measured consistently with profit or loss before tax in the consolidated financial statements. Furthermore, because the information of assets and liabilities is not reported to the chief operating decision maker for operation decision making, segment assets and liabilities are not disclosed. The accounting policies for reportable segments are the same as Group’s accounting policies described in Note 4.

(3) Segment information: Please see Table 11 attached;

(4) Reconciliation for segment income (loss)

The segment revenue, segment income (loss) and segment assets reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statements of comprehensive income and consolidated balance sheets.

(5) Information on product and service

Details of sales from external customers are as follows:

Item	Years ended December 31	
	2019	2018
Bicycle valves	$ 565,702	$ 522,225
Motorcycle and electric bike valves	967,602	926,797
Passenger car, truck and other valves	698,610	718,012
Accessories and others	484,975	461,744
Total	$ 2,716,889	$ 2,628,778

(6) Geographic information

A. Sales from external customers

Areas	Years ended December 31	
	2019	2018
China	$ 1,179,262	$ 1,158,441
Indonesia	761,096	712,812
Others	776,531	757,525
Total	$ 2,716,889	$ 2,628,778

B. Noncurrent assets

Areas	December 31 2019		December 31 2018	
China	$	1,214,236	$	791,489
Indonesia		152,629		150,846
Others		14,575		16,125
Total	$	1,381,440	$	958,460

(7) Major customer information

	Years ended December 31					
	2019			2018		
	Amount		%	Amount		%
Customer A	$	367,569	13.53%	$	346,067	13.16%

LUHAI HOLDING CORP. AND SUBSIDIARIES

FINANCING PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2019

(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 1

No. (Note 1)	Financing Company	Counter-party	Financial Statement Item	Related Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn (Note 6)	Interest Rate	Nature for Financing (Note 2)	Transaction Amounts	Reason for Financing	Recognized loss allowance	Collateral		Limit on Financing Provided to Each Company (Note 3)	Financing Company's Total Financing Limit (Note 4)
													Item	Value		
0	The Company	PT.LUHAI	Other receivables-related parties	Yes	59,960 USD 2,000	59,960 USD 2,000	– –	3.01%	2	–	Operating capital	–	–	–	920,278	920,278
0	The Company	LUHAI KUNSHAN	Other receivables-related parties	Yes	89,940 USD 3,000	89,940 USD 3,000	– –	3.01%	2	–	Operating capital	–	–	–	920,278	920,278
0	The Company	XIAHUI	Other receivables-related parties	Yes	149,900 USD 5,000	149,900 USD 5,000	– –	3.01%	2	–	Operating capital	–	–	–	920,278	920,278

Note 1: The numbers filled in for the financing company represent the following:

1. The Company is '0'
2. The subsidiaries are numbered in order starting from '1'

Note 2: Nature of loans:

1. Business transaction
2. Short-term financing

Note 3: Limit on loans granted by financing company is 40% of the financing company's net assets.

Note 4: Limit on total loans granted by financing company is 40% of the financing company's net assets.

Note 5: Foreign currencies aforementioned were translated into NTD using the exchange rate as of December 31, 2019 or average exchange rate for the year ended.

Note 6: Amount actually drawn have been eliminated upon consolidation.

LUHAI HOLDING CORP. AND SUBSIDIARIES
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 2

No. (Notes 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 4)	Guarantee Provided by Parent company	Guarantee Provided by Subsidiary to Parent Company	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship (Note 2)										
0	The Company	PT.LUHAI	2	920,278	164,890 USD 5,500	164,890 USD 5,500	164,890 USD 5,500	–	7.17%	1,150,348	Y	N	N
0	The Company	LUHAI KUNSHAN	2	920,278	59,960 USD 2,000	– –	– –	–	–	1,150,348	Y	N	Y
0	The Company	XIAHUI	2	920,278	809,460 USD 27,000	359,760 USD 12,000	359,760 USD 12,000	–	15.64%	1,150,348	Y	N	Y

Note 1：The Company is '0'.

Note 2：Entities having business transactions with is '1'.
Subsidiaries owned directly or indirectly over 50% is '2' .

Note 3：Limit on endorsements to a single company is 40% of the company's net assets.

Note 4：Limit on total endorsements is 50% of the company's net assets.

LUHAI HOLDING CORP. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 3

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Item	December 31, 2019				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value (Note 1)	
XIAHUI	Financial products of Agricultural bank of China	None	Financial assets at amortized cost-current	–	RMB 10,000	–	RMB 10,000	–
XIAHUI	Financial products of Agricultural bank of China	None	Financial assets at amortized cost-current	–	RMB 10,000	–	RMB 10,000	–
XIAHUI	Xiamen Taiwan Merchants Association Management Co., LTD	None	Financial assets at fair value through other comprehensive income-noncurrent	–	RMB 362	0.53%	RMB 362	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 2,014	–	RMB 2,014	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 3,020	–	RMB 3,020	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 3,010	–	RMB 3,010	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 9,024	–	RMB 9,024	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 10,006	–	RMB 10,006	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 10,004	–	RMB 10,004	–
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	None	Finanvial assets at fair value through profit or loss-current	–	RMB 10,000	–	RMB 10,000	–

LUHAI HOLDING CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2019

(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 4

Company Name	Marketable Securities Type and Name	Financial Statement Item	Counterparty	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		Note
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain/Loss on Disposal	Shares	Amount	
XIAHUI	Financial products of Agricultural bank of China	Financial assets at amortized cost-current	—	None	—	RMB 48,000	—	RMB 190,000	—	RMB 219,241	RMB 218,000	RMB 1,241	—	RMB 20,000	Note 1
LUHAI KUNSHAN	Financial products of Fubon Bank (China) Co., Ltd	Finanvial assets at fair value through profit or loss-current	—	None	—	RMB 10,045	—	RMB 67,000	—	RMB 30,332	RMB 30,332	—	—	RMB 47,078	Note 2

Note 1：The marketable security is recognized in financial assts at amortized cost. The gain on disposal is interest income.

Note 2：The marketable security is recognized in financial assets at fair value through profit or loss. The asset is evaluated according to IFRS and the gain/loss on valuation is recognized.

LUHAI HOLDING CORP. AND SUBSIDIARIES

DISPOSAL OF INDIVIDUAL REAL ESTATE PROPERTIES AT PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2019

(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 5

Sellor	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain (Loss) on Disposal	Counterparty	Relationship	Purpose of Disposal	Price Reference	Other Terms
LUHAI KUNSHAN	Propert, plant and equipment and right-of-use assets	November 25th, 2019	NOTE 1	NOTE 2	RMB 185,128	NOTE 2	NOTE 2	Kunshan Huaqiao Weimin House Demolition Limited Company	None	At the reguest of local government for the need of constructing rails	Valuation report	NOTE 2

NOTE 1: The right-of-use assets were obtained in 1999 and 2008 and the plants were acquired in 2000 and 2008 by LUHAI KUNSHAN.

NOTE 2: The transaction price includes compensation for the expropriation of the land use right, plant, buildings and equipment, cessation of production and business, termination of labor contracts and expenses relatd to relocation. Please refer to NOTE 6(16) for related information.

LUHAI HOLDING CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2019

(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 6

Purchaser/Seller	Counterparty	Nature of Relationships	Transaction Details				Difference in transaction term to third party transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
XIAHUI	PT.LUHAI	Subsidiary of ultimate parent company	Sales	USD 12,892	19.94%	According to conditions agreed upon the parties	—	—	Accounts receivable USD 3,798	21.45%	Note 1
XIAHUI	MEGA	Subsidiary of ultimate parent company	Sales	USD 4,328	6.69%	According to conditions agreed upon the parties	—	—	Accounts receivable USD 864	4.88%	Note 1

Note 1: All the transactions had been eliminated when preparing consolidated financial statements.

LUHAI HOLDING CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2019

(AMOUNTS IN THOUSANDS FOREIGN CURRENCIES)

Table 7

Company Name	Counterparty	Nature of Relationships	Ending Balance of Receivable-Related Party		Turnover Rate	Overdue		Amounts Received in Subsequent Period	Recognized loss allowance
			Item	Ending Balance (Note 1)		Amount	Action Taken		
XIAHUI	PT.LUHAI	Subsidiary of ultimate parent company	Accounts receivable	USD 3,798	–	–	–	USD 2,298	–

Note 1：All the transactions had been eliminated when preparing consolidated financial statements.

Table 8

LUHAI HOLDING CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION

FOR THE YEAR ENDED DECEMBER 31, 2019

(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLORS)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statement Item	Amount	Terms	Percentage of Net Consolidated Revenue
0	The Company	PT.LUHAI	1	Sales revenue	2,515	Note 3	0.09%
0	The Company	XIAHUI	1	Sales revenue	5,271	〃	0.19%
0	The Company	XIAHUI	1	Other revenue	9,074	〃	0.33%
0	The Company	LUHAI KUNSHAN	1	Sales revenue	1,105	〃	0.04%
0	The Company	LUHAI KUNSHAN	1	Other revenue	2,446	〃	0.09%
1	LU HAI IND.	The Company	2	Sales revenue	6,110	〃	0.22%
1	LU HAI IND.	The Company	2	Service revenue	356	〃	0.01%
1	LU HAI IND.	The Company	2	Rental income	1,931	〃	0.07%
1	LU HAI IND.	PT.LUHAI	3	Sales revenue	2,328	〃	0.09%
1	LU HAI IND.	XIAHUI	3	Sales revenue	3,735	〃	0.14%
1	LU HAI IND.	LUHAI KUNSHAN	3	Sales revenue	840	〃	0.03%
2	MEGA	PT.LUHAI	3	Other revenue	625	〃	0.02%
2	MEGA	XIAHUI	3	Other revenue	3,021	〃	0.11%
2	MEGA	LUHAI KUNSHAN	3	Other revenue	589	〃	0.02%
3	PT.LUHAI	XIAHUI	3	Sales revenue	711	〃	0.03%
4	XIAHUI	The Company	2	Sales revenue	76,403	〃	2.81%
4	XIAHUI	LU HAI IND.	3	Sales revenue	23,250	〃	0.86%
4	XIAHUI	MEGA	3	Sales revenue	133,550	〃	4.92%
4	XIAHUI	PT.LUHAI	3	Sales revenue	397,834	〃	14.64%
4	XIAHUI	LUHAI KUNSHAN	3	Sales revenue	26,714	〃	0.98%
4	XIAHUI	LUHAI KUNSHAN	3	Processing revenue	3,514	〃	0.13%
5	LUHAI KUNSHAN	The Company	2	Sales revenue	18,266	〃	0.67%
5	LUHAI KUNSHAN	LU HAI IND.	3	Sales revenue	3,942	〃	0.15%
5	LUHAI KUNSHAN	MEGA	3	Sales revenue	42,753	〃	1.57%
5	LUHAI KUNSHAN	PT.LUHAI	3	Sales revenue	9,281	〃	0.34%
5	LUHAI KUNSHAN	PT.LUHAI	3	Other revenue	1,041	〃	0.04%
5	LUHAI KUNSHAN	XIAHUI	3	Sales revenue	69,229	〃	2.55%
5	LUHAI KUNSHAN	XIAHUI	3	Processing revenue	13,103	〃	0.48%

(Continued)

Table 8

LUHAI HOLDING CORP. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION
FOR THE YEAR ENDED DECEMBER 31, 2019
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLORS)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statement Item	Amount	Terms	Percentage of Total Consolidated Assets
0	The Company	PT.LUHAI	1	Account receivables	1,183	Note 3	0.03%
0	The Company	XIAHUI	1	Account receivables	2,994	〃	0.07%
0	The Company	LUHAI KUNSHAN	1	Account receivables	681	〃	0.02%
1	LU HAI IND.	The Company	2	Other receivables	694	〃	0.02%
1	LU HAI IND.	MEGA	3	Other receivables	6	〃	-
2	MEGA	XIAHUI	3	Other receivables	657	〃	0.02%
2	MEGA	LUHAI KUNSHAN	3	Other receivables	267	〃	0.01%
3	XIAHUI	The Company	2	Account receivables	41,797	〃	1.01%
3	XIAHUI	MEGA	3	Account receivables	25,895	〃	0.62%
3	XIAHUI	PT.LUHAI	3	Account receivables	113,851	〃	2.75%
3	XIAHUI	LUHAI KUNSHAN	3	Account receivables	12,553	〃	0.30%
4	LUHAI KUNSHAN	The Company	2	Account receivables	9,589	〃	0.23%
4	LUHAI KUNSHAN	MEGA	3	Account receivables	8,579	〃	0.21%
4	LUHAI KUNSHAN	PT.LUHAI	3	Account receivables	1,270	〃	0.03%
4	LUHAI KUNSHAN	XIAHUI	3	Account receivables	55,945	〃	1.35%

Note 1: The numbers filled in for the transaction company represent the follows:
1. Parent company is ‘0’.
2. The subsidiaries are numbered in order starting from ‘1’.

Note2: Relationships between transaction companies and counterparties are classified into the following three categories as listed below:
‘1’ represents parent company to subsidiary.
‘2’ represents subsidiary to parent company.
‘3’ represents subsidiary to subsidiary.

Note 3: Sale price with related parties were determined and negotiated referring to related market price. Payment terms were T/T 90 days.

Note 4: All the transactions had been eliminated when preparing consolidated financial report.

(Concluded)

LUHAI HOLDING CORP. AND SUBSIDIARIES
INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 9

Investor	Investee	Location	Main Businesses activities	Original Investment Amount		Balance as of December 31, 2019			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2019	December 31, 2018	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
The Company	LU HAI BVI	Note 1	Investing activities	265,533	179,880	8,857	100%	1,055,661	107,419	107,419	Note 7
				(USD 8,857)	(USD 6,000)						
	ALLPRO	Note 2	Investing activities	199,157	134,910	6,643	100%	793,009	80,649	80,649	Note 7
	$			(USD 6,643)	(USD 4,500)						
	YUANHUI	Note 3	Investing activities	194,870	194,870	6,500	100%	485,766	(10,362)	(10,362)	Note 7
				(USD 6,500)	(USD 6,500)						
	LU HAI IND.	Note 4	Leasing and selling various kinds of valves and accessories	30,000	98,450	3,000	100%	113,879	11,261	11,692	Note 7、8、10
	MEGA	Note 5	Selling activities	—	—	50	100%	31,582	25,386	25,386	Note 7
	PT.LUHAI	Note 6	Manufucturing and selling various kinds of valves and accessories	203,864	203,864	6,800	85%	300,131	46,166	39,328	Note 7、8
				(USD 6,800)	(USD 6,800)						
LU HAI IND.	PT.LUHAI	Note 6	Manufucturing and selling various kinds of valves and accessories	35,976	35,976	1,200	15%	52,980	46,166	Note 9	Note 7、8
				(USD 1,200)	(USD 1,200)						

Note 1：P.O. BOX 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
Note 2：Corner Hutson & Eyre Street, Blake Building, Suite 302Belize City, Belize.
Note 3：Level 3, Alexander House, 35 Cybercity, Ebene Mauritius.
Note 4：No.64, Xingong 5th Rd., Tianzhong Township, Changhua County 52046, Taiwan (R.O.C.)
Note 5：#35 Barrack Road, 3rd Floor Belize City, Belize C.A.
Note 6：d\a. JI. Raya Cikande Rangkasbitung Km.4.5. Desa Junti, Jawilan, Serang, Indonesia.
Note 7：The transactions had been eliminated when preparing the consolidated financial statements.
Note 8：The differences between net income and share of profits/losses are due from unrealized sales (losses) gains.
Note 9：The share of profits/losses of the investee company is not reflected herein as such amount is already included in the share of profits/losses of the investor company.
Note 10：In order to coordinate with the Group's business planning, the Board of Directors approved to reduce 68,450 thousand of capital of LU HAI IND. The capital after reduction is 30,000 thousand.

LUHAI HOLDING CORP. AND SUBSIDIARIES
INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 10

Investee Company	Main Businesses and activities	Total Amount of Paid-in Capital	Investment Method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan for the year ended December 31,2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net Income (Losses) of the Investee Company (Note 5)	Percentage of Ownership	Share of Profits/Losses (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Remittance to	Remittance back						
XIAHUI	Manufucturing and selling various kinds of valves and accessories	464,690 USD15,500	Note 1	Not applicable	–	–	Not applicable	186,518 USD 6,044	100%	187,691 USD 6,082	1,833,157 USD 61,146	Not applicable
LUHAI KUNSHAN	Manufucturing and selling various kinds of valves and accessories	247,155 USD 8,244 (Note 4)	Note 1	Not applicable	–	–	Not applicable	7,653 USD 248	100%	7,221 USD 234	502,765 USD 16,770	Not applicable

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
Not applicable	Not applicable	Not applicable

Note 1：Through investing in an existing company in the third area, which then investing in the investee in Mainland China.

Note 2：Profit or loss recognized were based on the financial statements audited by the auditor of parent company.

Note 3：Foreign currencies aforementioned were translated into NTD using the exchange rate as of December 31, 2019 or average exchange rate for the year ended.

Note 4：The Company had capitalization of retained earnings amounted to USD 1,744 thousand in 2007.

Note 5：The differences between net income and share of profits/losses are due from unrealized sales (losses) gains.

Table 11

LUHAI HOLDING CORP. AND SUBSIDIARIES
SEGMENT INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Year ended December 31, 2019						
	The Company	XIAHUI	LUHAI KUNSHAN	PT.LUHAI	Others	Elimination	Total
Revenue							
Net revenue from external customers	$ 108,956	$ 1,330,162	$ 415,436	$ 642,262	$ 248,395	$ (28,322)	$ 2,716,889
Inter-segment revenue	8,891	661,265	156,574	711	15,100	(842,541)	-
Total	$ 117,847	$ 1,991,427	$ 572,010	$ 642,973	$ 263,495	$ (870,863)	$ 2,716,889
Interest income	$ 555	$ 10,185	$ 1,403	$ 704	$ 2,059	$ -	$ 14,906
Interest expenses	$ 8,669	$ 3,915	$ 47	$ 509	$ -	$ (146)	$ 12,994
Depreciation and amortization	$ 2,111	$ 69,828	$ 23,369	$ 18,113	$ 1,853	$ (2,170)	$ 113,104
Impairment of property, plant and equipment	$ -	$ 5,288	$ -	$ -	$ -	$ -	$ 5,288
Segment benefit (loss)	$ (13,578)	$ 251,392	$ 9,178	$ 68,194	$ 30,652	$ -	$ 345,838
Income (loss) before tax							$ 345,838
Total assets							$ 4,146,656

(Continued)

Table 11

LUHAI HOLDING CORP. AND SUBSIDIARIES

SEGMENT INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018

(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Year ended December 31, 2018						
	The Company	XIAHUI	LUHAI KUNSHAN	PT.LUHAI	Others	Elimination	Total
Revenue							
Net revenue from external customers	$ -	$ 1,173,838	$ 547,608	$ 586,164	$ 339,357	$ (18,189)	$ 2,628,778
Inter-segment revenue	-	628,485	146,882	2,724	15,800	(793,891)	-
Total	$ -	$ 1,802,323	$ 694,490	$ 588,888	$ 355,157	$ (812,080)	$ 2,628,778
Interest income	$ 809	$ 12,836	$ 1,320	$ 485	$ 1,976	$ (697)	$ 16,729
Interest expenses	$ 7,175	$ 4,091	$ 733	$ 697	$ -	$ (697)	$ 11,999
Depreciation and amortization	$ -	$ 62,939	$ 22,337	$ 14,783	$ 1,947	$ -	$ 102,006
Impairment of property, plant and equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Segment benefit (loss)	$ (34,425)	$ 221,388	$ 16,204	$ 52,453	$ 41,549	$ -	$ 297,169
Income (loss) before tax							$ 297,169
Total assets							$ 3,383,863

(Concluded)