

Otsuka Information Technology Corp.

2019 ANNUAL REPORT

(In case of any discrepancy between the Chinese and English versions,
the Chinese version shall prevail.)

June 05, 2020

**Annual Report is available at : <http://mops.twse.com.tw>
<http://www.oitc.com.tw>**

I. Names, Titles, and Contact Information of the Spokesman and Acting Spokesman

Items	Spokesperson	Acting Spokesperson
Name	Hsu, Hui-Ju	Lin, Chih-Ming
Title	Vice General Manager	Finance Associate Manager
Contact Number	(02)8964-6668	(02)8964-6668
EMAIL	vicky@oitc.com.tw	angus@oitc.com.tw

II. Contact Information of the Head Office, Branch Office, and the Factory

1. Head Office : 6F., No. 68, Sec. 2, Xianmin Blvd., Banqiao Dist., New Taipei City 220, Taiwan
(R.O.C.)

Tel : (02)8964-6668

Taoyuan-Hsinchu Branch : 13F.-2, No.251, Fuxing 1st St., Zhubei City, Hsinchu County
30271, Taiwan (R.O.C.)

Tel : (03)550-5568

Taichung Branch : 14F.-3, No. 213, Chaofu Rd., Xitun Dist., Taichung City 407, Taiwan
(R.O.C.)

Tel : (04)2258-2355

Tainan Branch : Rm. C1, 8F., No. 189, Sec. 1, Yongfu Rd., West Central Dist., Tainan City
700, Taiwan (R.O.C.)

Tel : (06)215-3356

Kaohsiung Branch : 6F.-1, No. 315, Minghua Rd., Gushan Dist., Kaohsiung City 804, Taiwan
(R.O.C.)

Tel : (07)550-1398

2.Branch Offices : None

3.Factory : None

III. Contact Information of the Stock Transer Agency

Name : SinoPac Securities

Website : <http://www.sinotrade.com.tw>

Address : 3F., No.17, Bo' ai Rd., Taipei City 100

Tel : (02)2381-6288

IV. Contact Information of the Certified Public Accountants for the Latest Annual Reports

CPA Name : Wu, Mei-Ping and Zhuang, Jun-Wei

CPA Firm : KPMG TW

Website : <http://www.kpmg.com.tw>

Address : 68F, Taipei 101 Tower, No.7, Sec.5, Xinyi Road, Taipei City

Tel : (02)8101-6666

V. Company's listed overseas securities and trade places : None

VI. Company Website : <http://www.oitc.com.tw>

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I. Letter to Shareholders

I. The 2019 Annual Operating Report

(I) Business Results

The Company has been continuously assisting our clients in integrating 3D imagine software into application and providing solutions and technical advisors for mid-level to hard-level CAX/CAM application issues to clients. In order to catch up with the changes of the market, the Company has been continuously trying to develop new business opportunities for advanced application, developing more products, and expanding product lines. Through improving the Company's organizational effectiveness, expanding dealer distribution market, strengthening technical support service and raising the added value at the same time, the Company was able to achieve a higher operating revenue and profit compared to 2017.

1. Management Results and Sales Condition of Primary Products are as follows:

(1) Business Result Comparison:

The Company's operating revue for 2019 is NT\$ 1,205,375 thousand, which is NT\$281,707 thousand more than 2018, an increase of 30.5%.; As for the operating margin of 2019, it is at NT\$438,090 thousand, which is NT\$118,491thousand more than 2018, an increase of 37.07%; The net profit after tax for 2018 is NT\$143,002 thousand, which is NT\$68,757thousand more than 2018, an increase of 92.61%.

Combined Financial Statements of Otsuka Information Technology Corp.

UNIT : NT\$1000

YEAR	2018		2019		Increases and Decreases	
	Amount	%	Amount	%	Amount	%
Operating Revenue	923,668	100.00	1,205,375	100.00%	281,707	30.50%
Operating Margin	319,599	34.60	438,090	36.34%	118,491	37.07%
Operating Expenses	228,468	24.73	263,912	21.89%	35,444	15.51%
Operating Net Profit	91,131	9.87	174,178	14.45%	83,047	91.13%
Income from Continuing Operations Before Income Tax	93,085	10.08	176,815	14.67%	83,730	89.95%
Net Income	74,245	8.04	143,002	11.86%	68,757	92.61%

(2) Financial Revenue and Expenditure and Profitability Analysis

Items			2018	2019	Differences
Financial Structure	Debt to Asset Ratio		24.06	28.08	4.02
	Long Term Funds to Fixed Assets		2,542.78	2,263.10	80.32
Solvency	Current Ratio		388.97	361.53	(27.44)
	Quick Ratio		360.40	319.28	(41.12)
Profitability	Return on Assets (%)		10.64	17.07	6.43
	Return on Equity (%)		13.38	23.05	9.67
	Profitability to Capital Stock Ratio (%)	Operating Profit	53.30	101.88	48.58
		Net Profit Before Tax	54.45	103.42	48.97
	Net Margin (%)		8.04	11.86	3.82
	Earnings per share (NT\$)		4.34	8.37	4.03

(3) Research and Development Status

The amount of money the Company's put into investment on research and development and the operating revenue to equity ratio for the last three years:

Uni : NT\$ 1000; %

Items and Year	2017	2018	2019
Research and Development Costs (A)	5,679	7,023	6,232
Net Operating Revenue (B)	676,317	923,668	1,205,375
(A)/(B)	0.84%	0.76%	0.52%

In 2019, The Company's research and development department not only assisted in some big projects, but also assisted with the development of many custom developed software for clients. Added new features and increased the effectiveness of 3D Designing to satisfy the client's needs. The department also aimed to raise the performance level as a whole by cooperating to adapt to a more systematic operating procedure.

II. The 2020 Business Plan

(I) Operating Principle

1. Maintain a close relationship with long-term clients and develop new business opportunities

As the Company enters the 24th year of running in the Drawing Software market in Taiwan, great services have always been the core principle of ours to maintaining the relationship between our clients. This year, the company will improve the development of a client system. Through big data analysis and a systematic management method, we aim to understand the latest needs of our clients and improve the repurchase rate of our existing clients. Furthermore, the Company shall reinforce services with more customer value, offer differentiated services and solutions to differentiate our competing brands. The Company believes that through a long and stable systematic management, we will be able to raise the company's Competitive Advantage for our clients.

2. Offers A Complete Technologies Integration Service of the Product Line

(1) The Company owns the right of agency to all Autodesk product lines, including manufacturing, construction, and Autodesk Media & Entertainment (M&E) solutions. The company will continue to offer complete solutions, at the same time build a team of skills development training team and customer service team. The Company has had several successful project experiences of all kinds and had accumulated a mature technology advisory support and experience in system planning. With the support from all product lines, the company is able to provide our clients more effective solution plans and improve the clients' satisfactory rate.

(2) The Company built a whole new sales department, targeting the sales of high-class 3D drawing software CREO made by a United States-based company, the Parametric Technology Corporation. After years of marketing work after obtaining the platinum right of agency, the product has gained a stable place in the market. With a powerful feature such as advanced surface design, structure static analysis and direct modeling, a parametric 3D CAD/CAM designing platform and a strong integration and problem-solving system, the product presented an even stronger functionality, flexibility, and efficiency and is now the most widely used system in Taiwan's computer information firms. As the Company is experienced in industry assistance, we also provide another product that the company obtained the right of agency of, the Product Lifecycle Management system made by Windchill. Through the system, we can improve the efficiency of cooperation between different departments. With the blooming

development of the smart industry, the internet of things technology enables enterprises to understand the relevant information towards improving the effectiveness of products, and drastically improve the quality of existing and future products. We believe that with the Company's PDM technology advantage, it will definitely increase the profit of said product line and stabilize its place in the market.

- (3) Provide Advisory Total Solution Service and develop multi brand maintenance service ability, in order to raise the profit and achieve the long-term goal of the Company. We will continue to provide multi-application of drawing software integration, information security, product lifecycle management system, paperless client management internal control system integration in the country, and aim to become a versatile professional company by creating business opportunities through expanding our services.

3. Integrate Internal Operating Procedure

As digitalization has become the trend, instantaneity and the ability to analyze data have become a must in a company's operating procedures. In 2018, the Company has integrated an online electronic signature system; effective sales and purchasing process with CRM and ERP systems. For this year, we shall continue and integrate a customer advisory service dispatching and closing system with a data analysis of our customers' needs. In addition to that, we shall build a company portal and assist the sales and technology department, and the director of responsibility center to instantly understand the client's case and service progress, or sales performance and manage accordingly. The portal system will make the company's operating process smoother, and further improve the quality and accuracy of our customer service.

(II) The Expected Sales Number and Its Basis

Based on the changes in both the market environment in the country and around the world, along with the changed in the development of the industry, the Company expects a 5% growth in its product sales in 2020.

(III) Important Production and Marketing Plans

1. Improve operating efficiency, structural effectiveness, core technologies and internal resource and sales management system, in order to improve online service effectiveness and the collaboration between the Mainland China and Taiwan.
2. Many renowned companies have adapted the method of incorporating smart robot system technology to raise the profitability and product quality and shorten the time needed for products to go online. Through this method, they were able to achieve a faster and smoother process of adapting to switching product lines with more flexibility, thus resulting with a production method that is less focused on production quantity, but more on a bigger variety of products. Through learning from these renowned companies, the Company will focus on client proposals with potential to integrate automation technology and provide complete systematic solution towards their needs. In addition to that, the company will continue to understand the needs of our existing clients and the market for original manufactured products. Through improving our servicing products, we aim to achieve a higher sales number and continue to expand our advanced technology advantage, in order to attract our clients into building software equipment that are smarter and with more flexibility and raise customer satisfactory rates and sales market share. Furthermore, we will introduce product lines that will bring more synergy to the table, and build more variety in our product lines, meanwhile finetuning each existing product line. The company aims to use to our advantage all of our product lines and our trading channel between the two shores.
3. Innovation is the power that drives cooperation. With VR/MR(Mixed Reality), IoT and interactive 3D sensing products on the rise, it also helped drive the demand of hardware, services and contents. As a result, the company plans to focus on building a whole new

professional marketing and new technology service support team to provide a differentiated sales method and more professional customer service, through improving the advisory sales method ability, training more assistant managers, and carrying on the Company's technology legacy to raise the competitiveness and cohesion of the Company.

(IV) The Future Development Strategy of The Company

1. Provide Professional System Integration Services.

Drawing and video call technology are generally used on personal computers, smart mobile devices, digital television, navigation equipment and gaming consoles, and 3D image fluency, operative accuracy, and personification are essential towards deciding the competitiveness of a drawing software. The company provides a platform that offers a complete solution plan of various kinds. The Company also plans on actively training professionally certified engineers and making the Total Solution customer service team as part of the critical business strategies. We shall establish a tight and mutually beneficial relationship with the manufacturers, creating a win-win solution for everyone including our company, the manufacturers, and the customers.

2. As the manufacturing industry has been facing rapid changes in the international market, and the pressure from the Red Supply chain, improving the production efficiency and operation method is inevitable in order to maintain its competitiveness and raise the products' added value. To achieve that, the Company will start from improving the time needed to developing customers products, providing a full solution support service, and assisting clients' on developing new products and lessening the time needed for the product to go online. The company will focus completely on trying to expand into different businesses and developing more product lines, and work towards the goal of becoming the leading figure in smart technology manufacturing.

3. Future Research and Development plans:

(1) As Autodesk switched its sales plans to a subscription plan, Otsuka must gradually build a solution plan to raise our competitiveness and strengthen the codependent relationship with our clients. As of now, we have been targeting to create related tools and improvement systems for products such as Autodesk Inventor, Moldflow, PTC zero, in hopes of strengthening the efficiency of the original product.

(2) The online platform of App Store provided by the manufacturer of Autodesk has released its plug-in software for developers on to Autodesk users around the globe. Otsuka IT plans to release part of the gadgets through online trial and paid subscription for test marketing so that further business plan can be made.

(3) Otsuka has been accumulating CAD related technology resources for many years. Besides the sales of software, technology service will be key in future development. The research and development unit will enhance the value-added service for clients as well as develop related software that will provide technology support and service for our users.

(V) Influences of the external competitive environment, regulatory environment and the overall business environment

1. Influences of the External Competitive Environment

As the Global market faced challenges like rapid changes and shorter production cycle, our company provides many solution plans for the manufacturing industry, construction industry and multi-media industry in the form of professional computer drawing software. We can integrate digital security management and research and development data management systems and professional technology drawing software retailers that aims to develop future automation technology. We are a drawing software retailer that provides future smart automation technology, and mainly distributes core technology products with more competitiveness. Along with a solid team of sales service advisors,

we continue to improve product demands of customers, and degree of dependence on technology. At last, we will be able to differentiate ourselves with our competitors, establish our market position and advantages, at the same time generate a higher profit.

2. Influences of the Regulatory Environment

The changes in the regulations in domestic and foreign policies, including changes in the IFRSs during the last few years has little impact on the Company's financials. However, as the government's regulations for corporate governance becomes stricter and stricter, the Company shall continue to pay attention making changes to the internal operation method and discuss with professional accountants and lawyers on ways to make the impact on the Company to the minimum if needed.

3. Influences of Overall Business Environment

According to Taiwan Institute of Economic Research's report, the expected growth in global economy would decrease in 2020 due to the impact of 2019-nCoV outbreak. As the IMF and OECD also predicted the same. However, there are some institutes that thinks that the global economy will be worse than 2018. In order to prepare to face the economic changes in and outside the country, the company will improve our technology integration, quality, and technology researches and development in hopes to raise customers' satisfaction and profit rate. As for improvement of internal efficiency, the company shall integrate the internal operating procedures, and perform systematic analysis on sales data and process management control, in hopes of making it easier for the sales department to understand important information like the customer's needs, staff performance, and technology support department to understand the current progress of each customers' project. Through the plans, the company aims to improve the customers' satisfactory rate and hope to encourage our colleagues to generate better performances.

(VI) Future Prospect

As the Taiwan Institute of Economic Research predicted in April 2020, the global economy of 2020 might suffer from the impact of 2019-nCoV outbreak. The Institute expected a 1.03% economic Growth Rate in 2020. As a representative of the CAD/CAM manufacturers, we shall continue to improve our product value; solidify our advanced technology advantage in the market, expand our market share and work towards benefiting both the Company and our clients. As digital services and market competition continue to emerge, the Company will focus on developing new product markets, and integrating internal data to better fit the needs of our existing clients. Through this, we aim to gain the clients' trust in our company and maintain the income generated from providing technology services.

There has been significant growth in the profit of the Company in 2019, which is attributed to the efforts of the staff as well as the patronage and confidence of our long-term clients. As for the prospect of the future, the operational team shall continue to pursue innovation and operational efficiency. We shall focus on providing more professional services and software technologies and integrate the trends of the industry in a more proactive and flexible way. With the hard work and support of our shareholders and directors, we aim to generate an even higher value for all our shareholders. Regarding the distribution of net income of 2019, we aim to provide all our clients and shareholders a better future, at the same time maintain the long term constant payout policy.

Chairman : Tsurumi Hironobu

General Manager : Kuo, Yi-Lung

Accounting Manager : Fu, Kai-Li

II. Company Profile

I. Date of incorporation:

August 4, 1997

II. Company History:

Year	Month	Company History
1997	August	Japan Otsuka Corp. and Taiwan Aurora Group join together and co-founded the joint venture Aurora Otsuka Corp., with a capital of NT\$ 100,000,000 majoring in selling CAD/CAM software and IT system integration.
	October	Signed the right to distribute the products of the AutoCAD series with US-based company Autodesk.
1998	March	Established the ITSI system integration place.
	September	Established the Taichung office, and received acknowledgement from the Ministry of Economic Affairs and the Institute for Information Industry to go to Japan to inspect the result of incorporating the CALS plan in the government, industry, and universities.
	October	Cash capital increases by 60 million.
1999	April	Established the Kaohsiung Office.
	October	Established the Tainan Office.
2000	January	Obtained the distribution rights of the software in the China region and became the only distributor with rights across both shores.
	May	Capital reduced by 77 million and then increased by 33.2 million, resulting in a total capital of 116.2 million.
	December	Established the IPO international Purchasing Department to assist the headquarters in Japan in purchasing information products.
2002	January	Acknowledged by Autodesk as the sole agent of MCAD (a series of products for the manufacturing industry) products in the Taiwan region.
	October	Otsuka Corporation obtained all the shares previously owned by the Aurora Group and became the sole shareholder of the company. Later renamed the company as Otsuka Information Technology Corp.
2003	January	Introduced a brand new corporate identification system called the Otsuka IT.
2004	May	Established the Hsinchu Office.
2005	February	Listed as the sole agent of Autodesk in the Taiwan region to distribute the educational series products in the manufacturing industry, spreading our business into the education market. Established the storage system department and provided information back-up security managed services for our clients.
2006	March	Obtained sole distribution rights for all Autodesk's products, and started a direct selling business in the education market; Obtained the right to sell Autodesk Alias series products.
2007	January	Obtained sole distribution rights of all Autodesk Alias series products and expanded our business into the most important market in the product development process, the industrial design market.
	July	Approved by the Securities and Futures Bureau, FSC, to initiate public offerings.

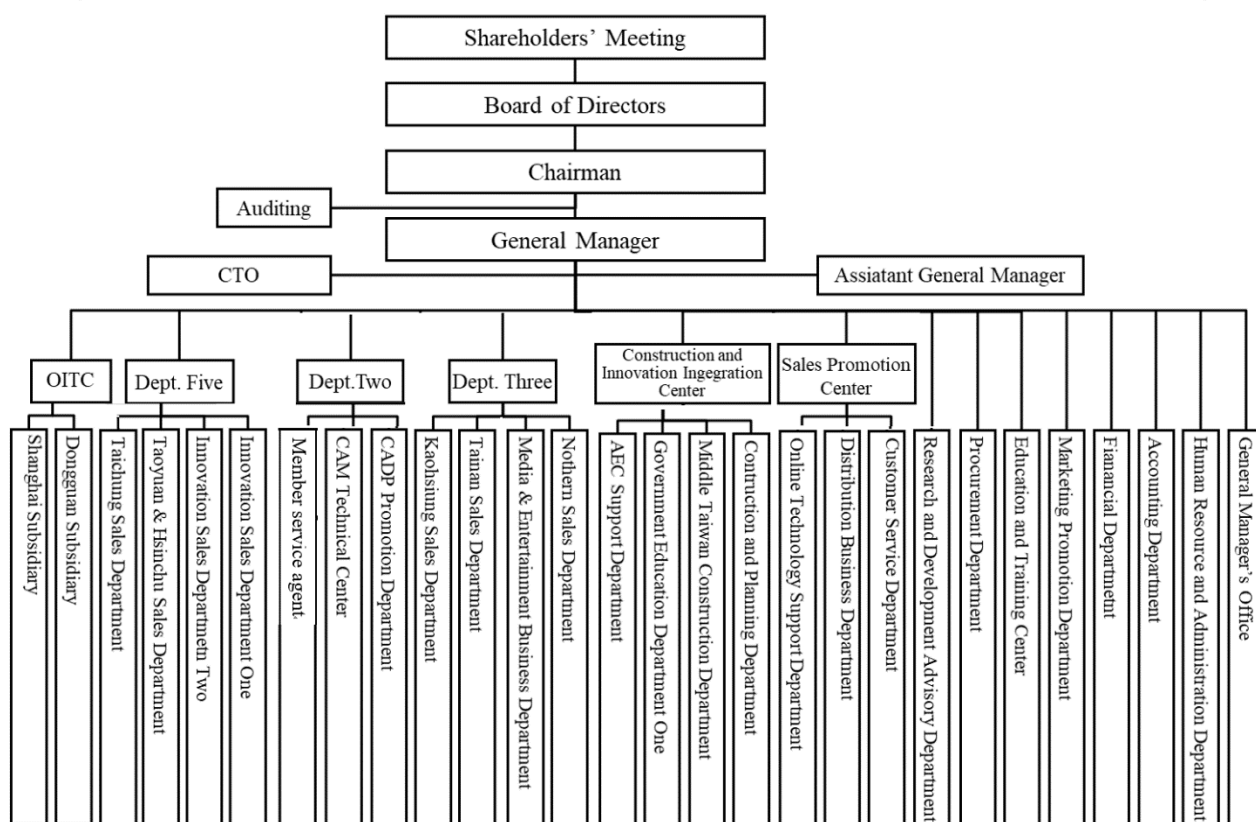
Year	Month	Company History
	September	Approved by the TPEx to be listed as an emerging stock.
		Approved by the Investment Commission to invest in the Mainland region.
	November	Otsuka Software Trading Corp. in Dongguan obtained its business registration certificate
2008	January	Introduced the self-developed software HyperPDM (Product Data Management).
	October	Company's stock officially listed in the OTC market
	November	Obtained a VAR-value added reseller contract from Autodesk in the China region.
2009	April	Approved by the Investment Commission to increase investment in the Mainland region.
	June	Otsuka Software Corp. in Suzhou obtained its business registration certificate.
	October	Obtained the distribution rights for Autodesk digital construction series product; Invested in real estate in Zhubei and established it as the Hsinchu office location.
2010	October	Approved by the Investment Commission to increase our investment in the Mainland region.
	December	Passed the corporate governance policy evaluation.
2011	January	Obtained the right of agency to sell Siemens' NX products.
	November	Obtained the right of agency to sell Pro/E, the parametric technology drawing software.
2012	February	Approved by the Investment Commission to increase investment in the Mainland region.
2013	June	Obtained the distribution rights for SAPVE products.
	July	Promoted by Autodesk with rights to sell DVAR contracts directly in all regions of China
2014	January	Otsuka Software Corp. in Suzhou obtained its business registration certificate.
2015	July	Approved by the Investment Commission to merge our subsidiary companies in the Mainland region, Otsuka Software Corp. in Suzhou and Oitc Information Technology Corp. in Shanghai
	September	Registered the DO Information Technology Corp.
2016	October	Obtained platinum distribution rights for PTC.
	November	Obtained distribution rights for all of Autodesk's product lines.
2017	January	Named as the only Platinum Agent of all Autodesk's product lines.
	October	Named as the only Platinum Agent of all of PTC's products.
		Obtained golden distribution rights for Siemens's NX products in both Taiwan and China.
2018	January	Obtained the agency agreement of ConMas i-Reporter
2019	January	Completed the merger of subsidiaries of the Company, Oitc Information Technology Corp. in Shanghai and Otsuka Software Corp. in Suzhou.
2020	March	Obtained the dealership agreement of the PTC Vuforia Engine

III. Corporate Governance Report

I. Organizational System :

(I) Corporate Organizational Structure

Otsuka Information Technology Corp. Organizational Chart



(II) Department Functions:

Department	Main Functions
General Manager	(1) In charge of making and overlooking the Company's operation and management policies. (2) In charge of setting the Company's short term or overall general business strategies along with adjusting the operating performance ratio. (3) In charge of planning and executing resolutions made by the Directors.
Auditing Office	(1) Investigates and evaluates the viability, rationality, effectiveness and the status of implementation of the regulations in each department (2) Establishes and executes audit proceedings (3) Writes audit reports and checks on the improvement of (4) Implements the internal control system and self-regulation
Human Resource and Administrative Department	(1) Human Resources management and Recruitment (2) Performance Evaluation (3) Employee Training and development (4) In charge of general affairs, and the handling of official documents and mails. (5) Inventory Control (6) Management of fixed assets
Finance Department	(1) In charge of financing and fund raising along with investment management (2) Re-Auditing overseas subsidiary accounting affairs.
Accounting Department	(1) In charge of accounting, tax related issues, and financial analysis and planning

Department	Main Functions
Marketing Department	(1) In charge of the Company's website design, planning and maintenance. (2) In charge of the planning and execution of marketing events of each products, including real-life and online events. (3) In charge of planning and execution under the year's marketing budget and planning for the Company's co-selling products. (4) Cooperates with upstream original manufacturer's marketing plans and proposals.
Education and Training Center	(1) In charge of the planning of internal personnel training, the management of educational materials and publications. (2) Planning and execution of the training courses for clients' software. (3) In charge of training new employees, ensuring professionally certified abilities. (4) In charge of creating new content on the online learning platform and platform maintenance.
Procurement Department	(1) Regular reports with upstream original manufacturers and working towards reaching the target of the year. (2) In charge of contacting and requesting quotation of products and comparing offers. (3) In charge of purchasing and product shipment.
CAD Promotion Department	(1) In charge of integrating 3D drawing software technology resources according to industry requirements and proves the most efficient solution plans for clients. (2) Offers advanced application and training for advanced CAE products. (3) Assists in improving the general engineers and sales persons' overall understanding of the company products, in hopes of improving their sales ability.
Customer Service Department	(1) Offering proactive customer service and cooperating with related departments to develop new business opportunities. (2) In charge of the sales of yearly maintenance contracts and OITC value-added products.
Marketing Assistance Department	Assist and manage telephone marketing, service, and development of the agent products.
Distribution Business Department	Assists and manages all distributors.
Member service agent	Provides online technology support services.
CAM Technical Center	(1) Assists in the management of Siemens business opportunities and order processing across both shores. (2) Planning and executing marketing events and sales training. (3) In charge of testing and developing new Siemens product lines. (4) Managing and executing the pre-sale and after-sale services of Siemens NX CAD CAM product lines. (5) In charge of developing and maintenance of customized Siemens NX applications, and providing training courses and customer service for clients.
Research and Development Advisory Department	(1) In charge of the development, maintenance, and management of products (2) Developing customized projects and time management. (3) Providing technology support to the Company about the Company's internal IT systems. (4) PLM project plan proposals and consulting services.

Department		Main Functions
		(5) In charge of PLM implementation, training, assisting, and providing related technology support services.
Media & Entertainment Business Department		(1)In charge of Autodesk Media & Entertainment (M&E) solution plans that mainly focus on the sales and promotion of products like Maya, and 3ds Max.
AEC Support Department		(1) In charge of the planning of AEC softwares’ sales strategy and promotion plans. (2) Regularly reports with upstream original manufacturers and works towards reaching the target of the year. (3) Provides technology support services and resources for AEC software.
Construction and Planning Department		
Middle Taiwan Construction Department		
Northern Sales Department		(1) In charge of the sales and promotion of products within their designated region. (2) In charge of communication with the products’ contact and quote inquiries within their designated region (3) Providing technology support services and related resources. (4) Manage and carry out the display and after-sales support service (5) Provide the client with training and relevant service
Taoyuan & Hsinchu Sales Department		
Taichung Sales Department		
Tainan Sales Department		
Kaohsiung Sales Department		
Government Education Department One		(1) Promotes the application of software and related hardware products in schools.
Innovation Sales Department One		(1) Mainly in charge of promoting the integration of PTC’S 3D CAD/CAM drawing software.
Innovation Sales Department Two		
OITC	Dongguan subsidiary	(1) In charge of sales and promotion of products in the China region. (2) In charge of communication and quote inquiry of products sold in the China region.
	Shanghai Subsidiary	(3) Provides technology support services and resources for products sold in the China region.

II. Information on the company's directors, supervisors, general manager, assistant general managers, associates and the supervisors, of all the company's divisions and brand units.

(I) Names, experiences, shareholdings and nature of relationship with the directors and supervisors.

1. Board directors and supervisors

May 1, 2019

Unit : shares; %

Title ¹	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Dated First Elected ²	Shares held upon election		Current Shares Held		Current Shares Held by the Spouse & Minor Children		Current Shares held in the Name of Others		Experience (Education)	Current Position in the Company and Other Companies	Executives, Directors, or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	Japan	Otsuka Corp. Representative: Tsurumi Hironobu	Male	June 24, 2019	3	November 20, 2001	6,465,900	37.82%	6,465,900	37.82%	0	0%	0	0%	Kokugakuin University, Department of Economics	1. Director of Otsuka Corp. 2. Managing Director	-	-	-	-
Director	Japan	Otsuka Corp. Representative: Wakamatsu Yasuhiro	Male	June 24, 2019	3	October 29, 2007	6,465,900	37.82%	6,465,900	37.82%	0	0%	0	0%	University of Hyogo Department of Economics	1. Director of Otsuka Corp.	-	-	-	-
Director	R.O.C.	Kuo, Yi-Lung	Male	June 24, 2019	3	June 29, 2016	10,000	0.06%	20,000	0.12%	0	0%	0	0%	National Kaohsiung University of Science and Technology, Industrial Engineering and Management Department	1. General Manager of the Company 2. Director of Otsuka Information Technology Ltd. 3. Director and General Manager of Otsuka Software Trading Corp. in Dongguan 4. Director and General Manager of Oitc Information Technology Corp. in Shanghai 5. President of To Gather Corporation	-	-	-	-

Title ¹	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Dated First Elected ²	Shares held upon election		Current Shares Held		Current Shares Held by the Spouse & Minor Children		Current Shares held in the Name of Others		Experience (Education)	Current Position in the Company and Other Companies	Executives, Directors, or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Director	R.O.C.	Hsu, Hui-Ju	Female	June 24, 2019	3	October 29, 2007	123,000	0.94%	112,000	0.66%	0	0%	0	0%	Shiga University, Master of Education	1. Assistant General Manager and spokesman of the Company 2. Supervisor at Otsuka Software Trading Corp. in Dongguan 3. Supervisor at Oitc Information Technology Corp. in Shanghai 4. President and general manager of To Gather Corporation	-	-	-	-
Director	R.O.C.	Liu, Cheng-Ho	Male	June 24, 2019	3	June 29, 2016	0	0%	0	0%	0	0%	0	0%	Tamkang University, Department of Computer Science	1. Director and Assistant General Manager at Koei Tecmo Taiwan CO., LTD	-	-	-	-
Independent Director	R.O.C.	Yan, Jun-De	Male	June 24, 2019	3	October 29, 2016	0	0%	0	0%	0	0%	0	0%	Tunghai University, Department of Accounting	1. CFO at Winking Entertainment Co., Ltd. 2. Independent Director at Patec Precision Industry Co., Ltd.	-	-	-	-

Title ¹	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Dated First Elected ²	Shares held upon election		Current Shares Held		Current Shares Held by the Spouse & Minor Children		Current Shares held in the Name of Others		Experience (Education)	Current Position in the Company and Other Companies	Executives, Directors, or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Independent Director	R.O.C.	Lin, Hui-Fen	Female	June 24, 2019	3	October 29, 2007	0	0%	0	0%	0	0%	0	0%	National Cheng Kung University, Doctoral Degree of Accounting	1. Accountant at Weyong International CPAs & CO. 2. Supervisor at Sunrex Technology Corp. 3. Independent Director and Remuneration Committee Member of Powertip Image corp. 4. Independent Director and Remuneration Committee Member of Lin Horn Technology Co., Ltd. 5. Independent Director and Remuneration Committee Member of Joytech Corp.	-	-	-	-

Title ¹	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Dated First Elected ²	Shares held upon election		Current Shares Held		Current Shares Held by the Spouse & Minor Children		Current Shares held in the Name of Others		Experience (Education)	Current Position in the Company and Other Companies	Executives, Directors, or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Independent director	R.O.C.	Chen, YenXun	Male	June 24, 2019	3	June 24, 2019	0	0%	0	0%	0	0%	0	0%	National Tohoku University, Japan, Master degree of legal studies; National Taiwan University, dual bachelor's degree in legal studies and politics	1. Chief lawyer and CEO of Chien Yeh Law Office 2. Director of Chien Yeh international Law office, Japan. 3. Superviso of Papyless Taiwan Co., Ltd. 4. President of Knowledge Extension Management Consultant Co., Ltd. 5. Independent director / audit committee member/ remuneration committee member of Simple Mart Retail Co., Ltd. 6. Independent director of AvanStrate Co., Ltd. 7. Independent director of Hsin Tao Power Corporation 8. Independent director / audit committee member / remuneration committee member of Kanpai C., Ltd.	-	-	-	-

Title ¹	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Dated First Elected ²	Shares held upon election		Current Shares Held		Current Shares Held by the Spouse & Minor Children		Current Shares held in the Name of Others		Experience (Education)	Current Position in the Company and Other Companies	Executives, Directors, or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Supervisor	R.O.C.	Huang, Xiang-Min	Male	June 24, 2019	3	June 29, 2016	0	0%	0	0%	0	0%	0	0%	Columbia University, Master of Architecture and Urban Design	1. CEO and supervisor at Fortune Construction Co., Ltd. 2. Chairman and General Manager of Rongshi Construction Co., Ltd. 3. Supervisor Representative at Excelsior Biopharma Inc	-	-	-	-
Supervisor	R.O.C.	Liu Cheng Ho	Male	June 24, 2019	3	June 29, 2016	0	0%	0	0%	0	0%	0	0%	Department of Computer Science and Information Engineering, Tamkang University	1. Director and vice general manager of Koei TECMO Co., Ltd.	-	-	-	-
Supervisor	Japan	Tamehiro Akio	Male	June 24, 2019	3	October 29, 2007	610,050	3.57%	610,050	3.57%	0	0%	0	0%	Dokkyo University, Department of Law	1. Chairman and General Manager of Noah International Taiwan Corp.	-	-	-	-

Note1: The titles of corporate shareholders and the representative should be listed separately (the title of the corporate shareholder that an individual represents should be specified). Such representatives should be listed in the table below.

Note2: Explanation should be provided when the tenure of first session for the Company's supervisor or director was disconnected.

Note3: Any experience related to the position currently taken in the Company should be specified (e.g. when an individual was employed in the CPA firms or affiliations mentioned previously, the position and the responsibility of the individual should be specified.) : None.

Note 4: When the president is the same person, the spouse, or the first-degree kinsman of the general manager or equivalent position (CEO), the Company should specify the reason, rationale, necessity, and complementary measures (e.g. recruiting more independent directors and ensuring that the majority of directors do not concurrently take common or managerial positions of the Company), and other relevant information: None.

2. Major shareholders of institutional directors or supervisors (Name and Shareholding Percentage with more than 10% shareholding):

Name of Institutional Shareholder	Major Shareholders	Shares held %
OTSUKA CORP.	Otsuka Sobi Co., Ltd.	30.97
	The Master Trust Bank of Japan, Ltd.(Trust Account)	4.57
	Japan Trustee Services Bank, Ltd.(Trust Account)	4.10
	Yuji Otsuka	2.99
	Minoru Otsuka	2.99
	Atsushi Otsuka	2.68
	OTSUKA CORPORATION Employee Stock-Sharing Plan	2.64
	Terue Otsuka	2.04
	Japan Trustee Services Bank, Ltd. (Trust Account 9)	1.91
	SMBC Nikko Securities Inc.	1.60

Note 1: The title of a corporate director or supervisor represented by an individual should be listed here.

Note 2: The major shareholder of a corporate shareholders (whose shareholding ratio is ranked in top 10) and its shareholding ratio should be listed here. The corporate shareholders whose stocks are mostly possessed by other corporates should be listed in Table 2 below.

Note 3: The title and shareholding ratio of on-corporate shareholding organizations are the sponsors or major donors and the sponsorship or donation ratio of such organizations.

3. Major shareholders of the Company's major institutional shareholders

Name of Institutional Shareholder ¹	Major Shareholders ²	Shares held %
Otsuka Sobi Co., Ltd.	Yuji Otsuka Hiroko Otsuka	98.96% 1.04%
OTSUKA CORPORATION Employee Stock-Sharing Plan	Not a Corporate organization, more like an Employee Stock Ownership Trust Organization with joint shareholding	—

- (1) If the major shareholder is an institutional shareholder, it should write the name of the Institutional Shareholder
- (2) Should write the name and the shareholding ratio of the major shareholders that holds the top 10 shareholdings
- (3) A non-corporate shareholder its shareholding ratio as mentioned above should disclose the titles of the sponsor or donor as well as the ratio or sponsor.
- (4) The other corporate shareholders are Japanese banks, so the major shareholders cannot be specified.

4. Professional qualifications and independence analysis of directors and supervisors

Name	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Attribute ¹												Number of Concurrent Independent Director Position Held in Other Public Companies
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who Has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Otsuka Corp. Representative: Tsurumi Hironobu			✓				✓	✓		✓			✓	✓	✓		—
Otsuka Corp. Representative: Wakamatsu Yasuhiro			✓				✓	✓		✓			✓	✓	✓		—
Kuo, Yi-Lung			✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	—
Hsu, Hui-Ju			✓		✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	—
Yan, Jun-De			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Lin, Hui-Fen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Chen, Yen Xun		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Huang, Xiang-Min			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—
Liu, Cheng Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—
Tamehiro Akio			✓				✓	✓	✓	✓	✓		✓	✓	✓	✓	—

Note 1 : The Directors and Supervisors comply with the following conditions from two years before being elected and appointed, and during their term of office, please check the appropriate corresponding boxes.

(1) Not an employee of this Company or its affiliates.

(2) Not a Director or Supervisor of the Company or its affiliates. (Does not apply to cases in which

the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)

- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top ten in holdings.
- (4) Not a manager as listed in (1) or a spouse, second-degree relative or third-degree relative of those listed in items (2) and (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds an aggregate amount of five percent or more of the total number of outstanding shares of the Company, those who holds shares ranking in the top five in holdings, or those who are assigned the position according to Article 27, item 1 or item 2 of Company Law. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (6) Not a director, supervisor, or an employee of another corporate of which over half of the BOD members or the majority of shareholding votes are controlled by the same individuals who have the same power over the Company. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (7) Not a director, supervisor, or employee of a corporate or organization of which the president, general manager, or other equivalent positions are taken by those who take the same positions in the Company or the spouses of such individuals. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (8) Not a director, supervisor, manager, or shareholder possessing 5% or more of the Company's outstanding stocks of a specific corporate or institution that has financial or business interactions with the Company. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (9) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company, whose received accumulated payment for such service is under 500 NT dollars over the most recent 2 years, or to any affiliate of the company, or a spouse thereof,; provided, this restriction does not apply to a member of the remuneration committee who exercises powers pursuant to Security Law, Business Mergers and Acquisitions Act, or related laws or regulations, the public tender offers review committee, or special committee for merger/consolidation and acquisition.
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (11) Not a person of any conditions defined in Article 30 of the Company Law.
- (12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

(II) Information on the general manager, deputy general manager, associates, managers of each departments and branch units

May 1, 2020

Title	Nationality	Name	Gender	Inauguration Date	Shares held		Shares Held by the Spouse & Minor Children		Current Shares Held in the name of Others		Experience (Education)	Current Position in Other Companies	Managers who are spouses or within two degrees of kinship			Remark (note1)
					Shares	Shares	Shares	%	Shares	%			Title	Name	Relation	
General Manager	R.O.C.	Kuo, Yi-Lung	Male	105.01.16	20,000	0.12%	—	—	—	—	National Kaohsiung University of Applied Sciences, Industrial Engineering and Management	1. Director of Otsuka Information Technology Ltd. 2. Director and General Manager at Otsuka Software Trading Corp. in Dongguan 3. Director and General Manager at Oitc Information Technology Corp. in Shanghai 4. President of To Gather Corporation	—	—	—	—
Assistant General Manager and Director of Office Five	R.O.C.	Song, Jin-Cheng	Male	108.01.10	—	—	—	—	—	—	Lunghwa University of Science and Technology, Department of Business Administration	無	—	—	—	—

Title	National-ity	Name	Gender	Inauguration Date	Shares held		Shares Held by the Spouse & Minor Children		Current Shares Held in the name of Others		Experience (Education)	Current Position in Other Companies	Managers who are spouses or within two degrees of kinship			Remark (note1)
					Shares	Shares	Shares	%	Shares	%			Title	Name	Relation	
Assistant General Manager and Head of Administration and Human Resource Department	R.O.C.	Hsu, Hui-Ju	Female	108.01.10	112,000	0.66%	—	—	—	—	Shiga University, M.Ed.	1. Supervisor at Otsuka Software Trading Corp. in Dongguan 2. Supervisor at Oitc Information Technology Corp. in Shanghai 3. Director and general manager of To Gather Corporation	—	—	—	—
CTO	R.O.C.	Xie, Qi-Lu	Male	100.12.01	4,072	0.02%	—	—	—	—	Technical Director of Dylan Information Technology Corp.	--	—	—	—	—
Finance Associate Manager	R.O.C.	Lin, Chih-Ming	Male	105.3.15	—	—	—	—	—	—	M.A. in Economics at Fu-Jen Catholic University Auditing Manager at Timerwell Technology (Taiwan) Co., Ltd.) Underwriting Manager at Fuhwa Securities Finance	Supervisor of To Gather Corporation	—	—	—	—

Title	National-ity	Name	Gender	Inauguration Date	Shares held		Shares Held by the Spouse & Minor Children		Current Shares Held in the name of Others		Experience (Education)	Current Position in Other Companies	Managers who are spouses or within two degrees of kinship			Remark (note1)
					Shares	Shares	Shares	%	Shares	%			Title	Name	Relation	
Accounting Deputy Manager	R.O.C.	Fu, Kai-Li	Female	107.8.6	—	—	—	—	—	—	National Dong Hwa University, Department of Accounting	—	—	—	—	—

Note 1: When the president, his spouse, or his first-degree kinsman concurrently serves as the general manager or take the equivalent position (chief manager), the reason, rationale, necessity, compensation measures (e.g. recruiting more independent directors, the majority of directors are not concurrently employees or managers of the Company), and other relevant information should be revealed.

(III) When the president, his spouse, or his first-degree kinsman concurrently serves as the general manager or take the equivalent position (chief manager), the reason, rationale, necessity, compensation measures (e.g. recruiting more independent directors, the majority of directors are not concurrently employees or managers of the Company), and other relevant information should be revealed: None.

III. Remuneration paid during the most recent fiscal year (2019) to directors, supervisors, the general manager, and assistant general manager (2018):

(I) Remunerations of Directors and independent directors

Unit : NT\$1000

Title	Name	Remunerations of Directors								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant remuneration received by directors who are also employees								Ratio of total compensation (A + B+C+D+E+F+G) to the net income		Compensation paid to directors from an invested company other than the company's subsidiary or parent company
		Base Compensation (A)		Severance Pay (B)		Directors Compensation (C)		Allowances (D)				Salary, Bonuses and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
		The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company		Companies in the consolidated financial report		The Company	Companies in the consolidated financial report	
																Cash	Stock	Cash	Stock			
Chairman	Tsurumi Hironobu	840	840	—	—	770	770	—	—	1.1%	1.1%	13,303	13,303	—	—	240	—	240	—	12.1%	12.1%	--
Director Representative	Wakamatsu Yasuhiro																					
Director	Kuo, Yi-Lung																					
Director	Hsu, Hui-Ju																					

Title	Name	Remunerations of Directors								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant remuneration received by directors who are also employees								Ratio of total compensation (A + B+C+D+E+F+G) to the net income		Compensation paid to directors from an invested company other than the company's subsidiary or parent company
		Base Compensation (A)		Severance Pay (B)		Directors Compensation (C)		Allowances (D)				Salary, Bonuses and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
		The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	Cash	Stock	Cash	Stock	The Company	Companies in the consolidated financial report	
Independent Director	Yan, Jun-De	1,040	1,040	—	—	1,091	1,091	33	33	1.5%	1.5%	—	—	—	—	—	—	—	—	—	—	
Independent Director	Lin, Hui-Fen																					
Independent Director	Chen, Yen Xun																					
Independent Director	Liu, Cheng-Ho (note 4)																					
<p>1.The payment policy, system, standard and structure of remuneration for independent directors should be explained, and the connection between the amount of payment and obligation, risk, and devoted time for taking the position should be specified: the remuneration for independent directors is allocated according to the guidelines for allocating remuneration to directors and members of functional committees; the allocated amount is determined by the devotion of each director and independent director for the Company's operation while the general payment standard among domestic companies of the industry is also considered.</p> <p>2. Except the sheet disclosed above, the remuneration for all the directors who served for all the companies within the consolidated financial statement (such as a consultant not an employee) the most recent fiscal year : None</p>																						

Note 1 : The Company did not pay Directors and Supervisors any Severance in 2019.

Note 2 : The Severance Pay set for directors who are also employees at the Company is set at NT\$ 200,000.

Note 3 : The remuneration of Directors and Employee Bonus Stock are approved and decided by the board.

Note 4 : The director Liu, Cheng-ho was reelected as supervisor on June 24th, 2019.

Note 5 : The Company does not disclose the remuneration of the Directors and Supervisors.

Range of Remunerations

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	Companies in the consolidated financial report(H)	The Company	Companies in the consolidated financial report (I)
Under NT\$ 1,000,000	Tsurumi Hironobu Wakamatsu Yasuhiro Kuo, Yi-Lung Hsu, Hui-Ju Yan, Jun-De Lin, Hui-Fen Chen, Yen-Xun Liu, Cheng-Ho(note 1)	Tsurumi Hironobu Wakamatsu Yasuhiro Kuo, Yi-Lung Hsu, Hui-Ju Yan, Jun-De Lin, Hui-Fen Chen, Yen-Xun Liu, Cheng-Ho(note 1)	Tsurumi Hironobu Wakamatsu Yasuhiro Yan, Jun-De Lin, Hui-Fen Chen, Yen-Xun Liu, Cheng-Ho(note 1)	Tsurumi Hironobu Wakamatsu Yasuhiro Yan, Jun-De Lin, Hui-Fen Chen, Yen-Xun Liu, Cheng-Ho(note 1)
NT\$1,000,000 (included) ~ NT\$2,000,000 (excluded)	—	—	—	—
NT2,000,000 (included) ~ NT\$3,500,000 (excluded)	—	—	—	—
NT\$3,500,000 (included) ~ NT\$5,000,000 (excluded)	—	—	Hsu, Hui-Ju	Hsu, Hui-Ju
NT\$5,000,000 (included) ~ NT\$10,000,000 (excluded)	—	—	Kuo, Yi-Lung	Kuo, Yi-Lung
NT\$10,000,000 (included) ~ NT\$15,000,000 (excluded)	—	—	—	—
NT\$15,000,000 (included) ~ NT\$30,000,000 (excluded)	—	—	—	—
NT\$30,000,000 (included) ~ NT\$50,000,000 (excluded)				
NT\$50,000,000 (included) ~ NT\$100,000,000 (excluded)				
Over NT\$100,000,000	—	—	—	—
Total	8	8	8	8

Note 1: The director Liu. Cheng-Ho was reelected as the supervisor on June 24th, 2019

2. Remunerations of Supervisors

Unit : NT\$1000

Title	Name	Remuneration of Supervisors						Ration of Total Remuneration (A+B+C) to Net Income (%)		Compensation paid to directors from an invested company other than the company's subsidiary or parent company
		Base Compensation (A)		Compensation(B)		Allowances(C)				
		The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	
Supervisor	Huang, Xiang-Min	900	900	963	963	15	15	1.31%	1.31%	N/A
Supervisor	Liu, Cheng-Ho									
Supervisor	Tamehiro Akio									
Supervisor	Chen, Tai-Ming (note 2)									

Note1. : The remuneration of Supervisors are approved and decided by the board.

Note 2: The tenure of supervisor Chen, Tai-Ming terminates on June 24th , 2019.

Range of Remunerations

Range of Remuneration paid to the Company's supervisors	Name of Supervisors	
	Total of (A+B+C)	
	The Company	Companies in the consolidated financial report (D)
Under NT\$2,000,000	Tamehiro Akio Liu, Cheng-Ho Huang, Xiang-Min Chen, Tai-Ming (note 1)	Tamehiro Akio Liu, Cheng-Ho Huang, Xiang-Min Chen, Tai-Ming (note 1)
NT\$1,000,000 (included) ~ NT\$2,000,000 (excluded)	—	—
NT2,000,000 (included) ~ NT\$3,500,000 (excluded)	—	—
NT\$3,500,000 (included) ~ NT\$5,000,000 (excluded)	—	—
NT\$5,000,000 (included) ~ NT\$10,000,000 (excluded)	—	—
NT\$10,000,000 (included) ~ NT\$15,000,000 (excluded)	—	—

NT\$15,000,000 (included) ~ NT\$30,000,000 (excluded)	—	—
NT\$30,000,000 (included) ~ NT\$50,000,000 (excluded)		
NT\$50,000,000 (included) ~ NT\$100,000,000 (excluded)		
Over NT\$100,000,000	—	—
Total	3	3

Note 1: The tenure of supervisor Chen, Tai-Ming terminates on June 24th, 2019.

3. Remunerations of General Manager and Assistant General Manager

Unit : NT\$1000

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Ratio of total compensation (A+B+C+D) to Net Income (%)		Compensation Paid to the President and Vice Presidents from an Invested Company Other than the Company's Subsidiary
		The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company		Companies in the consolidated financial report		The Company	Companies in the consolidated financial report	
								Cash	Stock	Cash	Stock			
General Manager	Kuo, Yi-Lung	4,112	4,112	—	—	13,235	13,235	360	-	360	-	12.37%	12.37%	N/A
Assistant General manager	Sung, Jin-Cheng													
Assistant General manager	Hsu, Hui-Ju													

Note 1 : Employee Remunerations were decided and approved by the board.

Note 2: The Company does not disclose the remuneration of the top 5 highest paid managerial staff.

Range of Remunerations

Range of remuneration paid to general managers and assistant general managers	Names of General Managers and Assistant General Mangers	
	The Company	All companies in the consolidated financial statement (E)
Under NT\$1,000,000	—	—
NT\$1,000,000 (included) ~ NT\$2,000,000 (excluded)		
NT2,000,000 (included) ~ NT\$3,500,000 (excluded)	—	—
NT\$3,500,000 (included) ~ NT\$5,000,000 (excluded)	Sung, Jin-cheng, Hsu, Hui-Ju	Sung, Jin-cheng, Hsu, Hui-Ju
NT\$5,000,000 (included) ~ NT\$10,000,000 (excluded)	Kuo, Yi-Lung	Kuo, Yi-Lung
NT\$10,000,000 (included) ~ NT\$15,000,000 (excluded)	—	—
NT\$15,000,000 (included) ~ NT\$30,000,000 (excluded)	—	—
NT\$30,000,000 (included) ~ NT\$50,000,000 (excluded)	—	—
NT\$50,000,000 (included) ~ NT\$100,000,000 (excluded)	—	—
Over NT\$100,000,000		
Total		

4. Employees Profit Sharing Granted to The Management Team

December 31, 2019

Unit : NT\$1000

Manager	Title	Name	Stock	Cash	Total	Rate of total amount to pure profits after tax (%)
	General Manager	Kuo, Yi-Lung	—	360	360	0.25%
	CTO	Xie, Qi-Lu				
	Assistant General Manager and Director of Office Five	Song, Jin-Cheng				
	Assistant General Manager and Head of the Administration and Human Resources Department	Hsu, Hui-Ju				
	Associate Finance Manager	Lin, Chih-Ming				
	Assistant Accounting Manager	Fu, Kai-Li				

Note : This sheet was approved and decided by the board.

(IV) Analysis of the proportion of the total remuneration of directors, supervisors, general managers and assistant general managers of the Company paid by the Company and all companies in the consolidated financial statement to net profit after tax in individual financial statements of the recent two years. Explanation of remuneration policies, standards and packages, the procedure to determine remuneration, and its linkage to operating performance and future risk exposure :

1. Analysis of the proportion of the total remuneration of directors, supervisors, general managers and deputy general managers of the Company paid by the Company and all companies in the consolidated financial statement to net profit after tax in individual financial statements of the recent two years:

Unit : NT\$1000

Title	Year 2018				Year 2019			
	Total Remuneration		Ratio of total remuneration paid to net income (%)		Total Remuneration		Ratio of total remuneration paid to net income (%)	
	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report	The Company	Companies in the consolidated financial report
Director	10,625	10,625	14.3%	14.3%	17,317	17,317	12.1%	12.1%
Supervisor	1,472	1,472	1.98%	1.98%	1,878	1,878	1.31%	1.31%
General Manager	5,575	5,575	7.51%	7.51%	17,707	17,707	12.37%	12.37%

2. Explanation of remuneration policies, standards and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure :

- (1) The Company's salary structure is basically made up of three parts, salary, year-end bonus, and performance bonus (variable pay).
- (2) The remuneration of Directors and Supervisors should include compensation, allowances payment; The compensation and allowances should follow the Company's policy set according to the contribution made to the Company by the board, at the same time follow a general reasonable amount in the industry. The amount of payment made to directors and supervisors were made under the consideration of both the operation outcome and performance evaluation of the board. According to Act 26 of the Company's policy, if the Company makes a profit for the said year, the Company shall give 3% to the directors and supervisors as payment. Performance evaluation and the reasonability of salary were all reviewed by the remuneration committee and the board, and adjust the remuneration policy accordingly to the actual operational situation in order to maintain the balance between sustainable operation and risk control.
- (3) The remuneration of the Company's higher-level managers including salary, bonus, employee payment, employee stock ownership trust, and salary structure including the basic salary, bonuses, allowances are all evaluated and decided by remuneration committee, and sent to review by the board. The remuneration committee will take into consideration the nature of the employee's job, responsibilities, along with the employees' educational and work experiences, seniority and performance result. After being reviewed and passed by the board, and decided by the shareholders, the Company decided to set the employee payment accordingly to each employee's performance, seniority, position, and special contribution made to the company.

IV Corporate Governance Status

(I) The state of operations of the board of directors

Eight meetings were held by the Board of Directors in the fiscal years or from the current fiscal year until the date of annual report publication (May 11, 2020); The Attendance of directors is shown below :

Title	Name	In-Person Attendance (B)	By Proxy	In-Person Attendance Rate (%) (B/A)	Remarks
Chairman	Otsuka Corp. Representative: Tsurumi Hironobu	8	0	100.00%	
Juridical Person Director	Otsuka Corp. Representative: Wakamatsu Yasuhiro	3	5	37.50%	
Director	Kuo, Yi-Lung	8	0	100.00%	
Director	Hsu, Hui-Ju	8	0	100.00%	
Director	Liu, Cheng-Ho (Note 1)	2	0	100.00%	Re-elected as supervisor
Independent Director	Yan, Jun-De	6	2	75.00%	
Independent Director	Lin, Hui-Fen	8	0	100.00%	
Independent Director	Chen, Yen-Xun (Note 2)	6	0	100.00%	

Note 1: The director Liu, Cheng-He was re-elected as supervisor on June 24th, 2019.

Note 2: The director Chen, Yen-Xun's tenure began on June 24th, 2019.

Other matters to be recorded :

1. During the operations of the Board of Directors, the meeting date, period, content, qualified opinion and resolution made by any independent director should be specified.

(1) Matters specified in Article 14.3 of the Taiwan Securities and Exchange Act

Meeting Date	Content	Qualified Opinion from any Independent Director
Meeting 15 of the 8 th Board Meeting March, 15, 2019	<ol style="list-style-type: none"> 1. The distribution of 2018's net income. 2. Modification of the Company's Article of Incorporation. 3. Modification of the Company's Procedures for Acquisition or Disposal of Assets. 4. The re-electing of director and supervisor. 5. With regard to the flexibility of fund management, subsidiary Otsuka Software Trading Corp. (Will be referred as Otsuka Dongguan) in Dongguan extended a loan of CN¥5,000,000 to subsidiary OITC Information Technology Corp.(Will be referred as OITC) in Shanghai. 6. Convene the shareholders for matters related to the 2019 shareholders' meeting. 	Approved by all Independent Directors
Meeting 16 of the 8 th Board Meeting May 10, 2019	<ol style="list-style-type: none"> 1. Adopted the consolidated financial report and accountant's review report draft of the company's first quarter of 108 years. 2. Modification of the Company's Articles of Incorporation. 3. Nominate the candidates for directors (including independent director) and supervisors. 4. Lifting the new company's non-competition prohibition case. 5. The company transferred to invest in the establishment of a subsidiary case. 6. Provide endorsement guarantees for subsidiaries. 7. Amend the company's "finance loan and other people's operating procedures" case. 8. Amend the company's "endorsement guarantee operating procedures" case. 9. Convene the shareholders for matters related to the 2019 shareholders' meeting. 	
Meeting 1 of 9 th Board Meeting June 24, 2019	<ol style="list-style-type: none"> 1. Elect the chairperson. 2. plan to recruit the remuneration committee member of the Company. 	

	Meeting 2 of 9 th Board Meeting August 5, 2019	1. Adopt the Company's consolidated financial report of 2019 Q2 and CPA's review report. 2. Determine the record date and payment date for cash dividend in 2018. 3. Endorse the subsidiary called To Gather Corporation. 4. Amend the Company's internal control system.		
	Meeting 3 of 9 th Board Meeting November 11, 2019	1. Adopt the Company's consolidated financial report of 2019 Q3 and CPA's review report. 2. Provide the loan and the amount of loaned capital for the subsidiary called To Gather Corporation 3. Appoint the custodian of the Company's seal specifically for endorsement and guarantee.		
	Meeting 4 of 9 th Board Meeting, December 16, 2019	1. Review the policy, system, standard, and structure of the remuneration for directors and supervisors. 2. Adopt the CPA's audit fee in 2019. 3. Appoint the director of the Company's audit affairs. 4. Amend the Company's internal control system. 5. Adopt the Company's annual audit plan for 2020.		
	Meeting 5 of 9 th Board Meeting March 16, 2020	1. Allocate and distribute remuneration for the Company's directors. 2. Adopt the 2019 business report, individual financial report, and consolidated financial report. 3. Distribute the annual earnings of 2019. 4. Amend the Company's Articles of association. 5. Amend the Company's Rules and Procedures of Board of Director Meetings. 6. Amend the Company's Procedures for Election of Directors and Supervisors. 7. Amend the Company's Regulations Governing Making Endorsements 8. Amend the Company's Procedures for Loaning Funds 9. Amend the Company's Procedures for Acquisition and Disposal of Assets. 10. Establish the Company's Regulations governing organization of audit committee 11. Amend the Company's Rules for Board of Directors Meetings. 12. Amend the Company's Ethical Corporate Management Best Practice Principles 13. Amend the Company's Regulations for Organization of remuneration committee. 14. Recruit additional directors. 15. Lift the Non-competition limitations on the Company's new directors. 16. Loan RMB 5 million yuan to the subsidiary in Shanghai. 17. Plan affairs about assembling the Company's 2020 shareholders meeting.	Relevant proposals gave been accepted by all independent directors with consensus	
	Meeting 6 of 9 th Board Meeting May 11, 2020	1. Adopt the Company's consolidated financial report of 2020 Q1 and CPA's review report . 2. Determine the report date and payment date of cash		

assessment

(1) Strengthening the Functions of The Board:

Since the formation of the Remuneration Committee in 2011, the committee has been assisting the Board of Directors with regular evaluations and deciding the compensation of directors and managers; and regularly reviewing the directors and managers' performance evaluation and the compensation policy, regulations and structure. Please refer to the "Operation Status of the Remuneration Committee" on pg. 29 for performance assessment.

(2) Promoting Information Transparency:

Information about the Company's finance, important decision matters, and directors' training courses can all be found on the market observatory post system according to the related regulations. All financial information about the Company were all disclosed on the Company's website, and open to the public at any time.

(II) The State of Operations with Supervisors Attending the Board Meeting:

8meetings (A) were held by the Board of Directors in the fiscal years or from the current fiscal year until the date of annual report publication; The attendance of supervisors is shown below :

Title	Name	In-Person Attendance (B)	In-person Attendance Rate (%) (B/A)	Remarks
Supervisor	Tamehiro Akio	7	87.50%	
Supervisor	Huang, Xiang-Min	8	100.00%	
Supervisor	Liu, Cheng-Ho	6	100.00%	Re-elected as supervisor
Supervisor	Chen, Tai-Ming (note 1)	1	50.00%	

Other matters to be recorded:

1. The structure formation of supervisors and their responsibility :

(1) The communication status between Supervisors and employees and shareholder :

The Company's supervisors understand the company status by attending the shareholders' meeting and communicating directly with the employees and shareholders when it's necessary. The supervisors email addresses are disclosed on the Company's website for employees and shareholders to ensure they are able to communicate directly with the supervisors.

(2) The communication status between Supervisors and Auditing manager and accountants :

The Auditing Unit will present the auditing report every month for the supervisors to review and conduct the auditing report during the directors and supervisors' meeting. The accountant will report to the supervisors about the year's financial situation. The Supervisor will always check on the Company's sales performance and financial status and ask the board of directors and managers for status reports.

2. If the Supervisors had spoken any opinion during the attendance of the Board meetings, the date of the meeting, the meeting number, content and board decisions and the boards' final resolution regarding the supervisors' opinions should be listed as followed : None

Note1: The tenure of supervisor Chen Tai-Ming expires on June 24th , 2019.

IV. The state of the Company's implementation of corporate governance, any deviation of such implementation from the Governance Best-Practice principles for TWSE/TPEX Listed Companies, and the reason for such deviation.

Items	Implementation Status			Deviation from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Its Reasons
	Yes	No	Description	
1. Does the company disclose the Corporate Governance Best-Practice Principles based on the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"?	V		The Company has established Corporate Governance Practices and Principles and disclosed it on the Company's website.	Follows the "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"
2. Shareholding structure & Shareholders' rights.				
(1) Does the company establish an internal operating procedure to deal with shareholder's suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		(1) The company has hired a stock transfer agency to assist in dealing with related matters and appointed a spokesperson and an acting spokesperson. The company also set up an email account for investors to deal with recommendation from shareholders and related matters.	Follows the "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(2) The Company gains understanding of the structure of our major shareholders, and information about internal personnel applying for share transfers under regulation, and the shareholding status of the company at all times through the help of a stock transfer agency.	
(3) Does the company establish and execute risk management and firewall system within its conglomerate structure?	V		(3) The Company has established policies for "Business Transactions between a Group Enterprise, Specific Companies and Affiliated Enterprises", "Operational Code for Managing Subsidiaries", and "Operational Code for Risk Management" and follows the codes when dealing with affiliated enterprises.	
(4) Does the company establish internal rules against insides trading with undisclosed information?	V		(4) The company has established "Procedures for Handling Material Inside Information" and "Codes of Ethical Conduct" to avoid insider trading from happening.	

Items	Implementation Status			Deviation from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Its Reasons
	Yes	No	Description	
<p>3. Composition and Responsibilities of the Board of Directors.</p> <p>(1) Does the Board develop and implement a diversified policy for the composition of its members?</p>	V		<p>(1) The Company has established the “Corporate Governance Practices and Principles” to ensure diversity in the board directors and supervisors and take operational method and requirements for future development into consideration when deciding what kind of diversity the Company needs. Besides the basic requirements and values like gender, age, nationality, and cultures, the candidates’ professional skills and background (E.g. Background in law, accounting, industry, finance, marketing, technology), and experiences in the industry should also be taken into consideration. On the Company’s Eighth Board of Directors, there are two female members that are familiar with leadership, making operational decisions, business management, crisis management, and knowledgeable with the industry. As for candidate with a keen eye on the international market, we have Mr. Tsurumi Hironobu, Mr. Wakamatsu Yasuhiro, Mr. Kuo, Yi-Lung and Ms. Hsu, Hui-Ru. Three of our independent directors, Mr. Yan, Zheng-De, and Ms. Lin, Hui-Fen, and Chen Yen-Xun are experienced in administrative management, finance, and accounting. The board has established a diversity guideline according to the formation of the Board of Directors. The guidelines are disclosed on the Company’s website.</p>	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”
<p>(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?</p>		V	<p>(2) The Company has established the Remuneration Committee according to relevant laws. The audit committee will be established during the fiscal year to strengthen the internal control system.</p>	The other functional committees will be establish depends on the company’s policy in the future.

Items	Implementation Status			Deviation from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Its Reasons
	Yes	No	Description	
<p>(3) Does the company establish a standard to measure the performance of the Board, and implement it annually, submit the performance evaluation outcome to the Board of Directors as the reference for remuneration of directors as well as nomination for candidates of an extended tenure?</p> <p>(4) Does the company regularly evaluate the independence of CPAs?</p>	<p>V</p> <p>V</p>		<p>(3) The Company has established rules and procedures for the Board of Directors’ performance assessment and conducts yearly performance assessment before the end of each year and produces an assessment report for the Board of Directors according to the regulations. The 2019 performance assessment has been reported to the Board of Directors on March, 16, 2020, with no major incidents recorded on the report as a result.</p> <p>(4) Each year, the Company’s Board of Directors evaluate the independence and suitability of the CPA at least once. The evaluation focuses on the reputation and scale of the accounting firm; the years that they have been conducting auditing services; the nature and level of assurance of the non-audit services they offer; their audit fee; peer reviews; whether they have been taking courses to further improve themselves; and their interactions with people on the management team and the audit manager. The company will ask the accountant and their affiliated accounting firm to provide the information mentioned above, along with a statement of independence. Both evaluation results for the past two years have passed the Board of Directors’ review separately on March 15, 2019 and March 16, 2020.</p>	
4. As a TWSE/TPEX listed company, does the Company appoint appropriate number of staff and designate a director for corporate governance (concurrent) the concerned affairs (including but not limited to offering necessary materials for the directors and	V		The Company does not have a designated director for corporate governance affairs; currently, all matters related to the Company’s corporate governance are all conducted by the unit that oversees meetings, and the unit that handles stock affairs. Their main duties include preparing the documents needed for the directors and supervisors when they conduct business, document needed for the shareholders’ meeting and the board meeting, company registration and the changing of registration, etc.	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Items	Implementation Status			Deviation from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Its Reasons
	Yes	No	Description	
supervisors, assisting directors and supervisors with law-abiding affairs, executing matters pursuant to the board of directors’ resolutions, executing the corporate registration and change of registration, proceedings for the board of directors and shareholder meetings and so on)?				
5. Does the Company establish communication channels and dedicate a section for stakeholders (including but not limited to the shareholders, employees, clients and suppliers) on its website to respond to important issues of corporate social responsibility concerns?	V		The Company had disclosed the spokesperson and acting spokesperson’s contact information and emails for the investors, supervisors, employees on the Company’s website. In addition to that, the Company also established a communication channel for stakeholders to discuss related matters, in order maintain a healthy communication with our stakeholders.	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company authorized SinoPac Securities as our shareholder services agent to conduct shareholder affairs.	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”
7. Disclosure of Information (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		(1) The Company has set up a website to disclose the business and financial information along with information on corporate governance.	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”
(2) Does the Company have other	V		(2) The Company has designated a specific person for data	

Items	Implementation Status			Deviation from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Its Reasons
	Yes	No	Description	
<p>information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesperson system, webcasting investor conferences)?</p> <p>(3) Does the Company submit the annual financial report within 2 months after a fiscal years ends and disclose the financial report of Q1, Q2, and Q3, as well as the business operation in each month prior to the designated date?</p>			<p>collection and the disclosure of information on the market observatory post system. The Company has also appointed a spokesperson and an acting spokesperson.</p> <p>(3) The Company reveals relevant financial information following the schedule specified in relevant laws and makes no plan for disclosure in advance.</p>	The plan for disclosure in advance depends on the company policy in the future
<p>8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, right of stakeholders, directors and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of</p>	V		<p>1. The rights and interests, and the caring for our employees : The Company values the relationship between employee and employer. Our employees all have the benefits of Labor/Health Insurance, Group Insurance, and regular health check-ups. In addition, the Company also established Regulations for the Employee Welfare Committee to follow when handling the benefits of the employees.</p> <p>2. Relationship with the Investors : The Company values our social responsibility in the society. Not only do we aim to maintain the operations of the company, at the same time maximize the profits of our shareholders, we would also pay attention the rights and interests of our investors, as well as our social responsibility as a company, the environment of our</p>	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Items	Implementation Status			Deviation from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Its Reasons
	Yes	No	Description	
customer relations policies, and purchasing insurance for directors and supervisors)?			<p>community, and the balance of the securities exchange market order.</p> <p>3.Relationship with our suppliers : The Company maintains a good relationship with our suppliers. We have been conducting business with honesty and trustworthiness as our principles, in order to maintain the stability of our cost and supply.</p> <p>4.Relationship with stakeholders : The Company has established a Grievance procedure, disclosed on the company’s website. We have also established a spokesperson policy, set up emails addresses disclosed on our website for our investors, supervisors, and stakeholders to provide a communication channel for our stakeholders, to protect the legal rights that our stakeholders possess.</p> <p>5.Furthering education opportunities for directors and supervisors : The Directors and Supervisors of the Company all possessed professional industry backgrounds and experiences in operating and management and have being continuously furthering their studies in hopes to improve their professional skill and gain new knowledges each year. Please refer to page 52 of this report regarding to the status for their furthered education.</p> <p>6.Implementation of risk management policy and risk measurement standards : The Company has established a “Risk Management Policy” as set according to the governance of the Company. Internal audit officers will plan and execute the year’s auditing plans according to the results of the risk evaluation, in order to ensure the implementation of the supervising policy and risk management.</p>	

Items	Implementation Status			Deviation from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Its Reasons
	Yes	No	Description	
			<p>7. Implementation of customer policies : The Company has appointed a specific person to deal with customer complaints.</p> <p>8. Liability insurance for the Company’s directors and supervisors : Following the regulations, the Company has covered the liability insurance for our directors and supervisors and minimized the risk in the execution of business for our directors and supervisors in order to protect the interests of our investors.</p>	
<p>9. According to the latest results of the Corporate Governance Evaluation System by the Corporate Governance Center of TWSE, explain the amendments or propose the priority measures for the unimproved item (unnecessary for the exclude companies):</p> <p>(1) Amendments : “Management Principles for prevention of insider trading” and “Outcome of 2019 Board of Directors performance evaluation” have been disclosed on the Company’s website.</p> <p>(2) Proposal for unimproved items : None</p>				

(I) If the company has a remuneration committee in place, the composition, duties, and operation of the remuneration committee shall be disclosed :

1. Information on members of the Remuneration committee

Identity (Note 1)	Name	Meets One of the Following Professional Qualification Requirement, Together with at Least Five Years Work Experience	Independence Attribute (Note 2)										Concurrent remuneration committee position in other publicly listed companies	Remarks
			1	2	3	4	5	6	7	8	9	10		
Independent Director	Lin, Hui-Fen	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College, or University	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	

Independent Director	Yan, Jun-De			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Chen Yen-Xun		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1 : Fill in the Identity column with directors, independent directors, or others.

Note 2 : All members comply with the following conditions from two years before being elected and appointed, and during this term of office, please tick the appropriated corresponding boxes.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or affiliated companies. Not applicable in cases where the person is concurrently an independent director of the parent company, any subsidiary, or another subsidiary of the parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
- (4) Not the general manager listen in (1) , or the spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the persons in the proceeding notes (2) and (3). .
- (5) Not a director, supervisor, or employee of a corporate shareholder who in aggregate directly holds 5% or more of the total number of outstanding shares of the Company, who holds shares ranking in the top five holdings, or who has designated a representative to serve as a director or supervisor according to Article 27 item1 or item 2 of the Company Law. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (6) Not a director, supervisor, officer, or shareholder holding 50% or more of the shares of a specified company or institution which has a financial or business relationship with the Company. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (7) Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (8) Not a director, supervisor, manager, or shareholder possessing 5% or more of the Company's outstanding stocks of a specific corporate or institution that has financial or business interactions with the Company. (Does not apply to cases in which the person is an Independent Director of the Company or its parent company, subsidiary, or a subsidiary of the Company's parent company, as appointed concurrently in accordance with the laws of the country of the parent or subsidiary.)
- (9) proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company, whose received accumulated payment for such service is under 500 NT dollars over the most recent 2 years, or to any affiliate of the company, or a

spouse thereof,; provided, this restriction does not apply to a member of the remuneration committee who exercises powers pursuant to Security Law, Business Mergers and Acquisitions Act, or related laws or regulations, the public tender offers review committee, or special committee for merger/consolidation and acquisition.

(10) Not a person of any conditions defined in Article 30 of the Company Act.

2. Operation status of the Remuneration Committee

(1) There are 3 members in the Company's Remuneration Committee

(2) Current Term : From June 24, 2019 to June 23, 2022. The Remuneration Committee held 5 meetings in the recent year up to the date of printing of the annual report, the qualifications and attendance of the Committee are shown below.

Title	Name	In-Person Attendance(B)	By Proxy	In-Person Attendance Rate (%) (B/A)	Remarks
Committee Member	Lin, Hui-Fen	4	0	100.00%	
Committee Member	Yan, Jun-De	3	1	75.00%	
Committee Member	Chen, Yen-Xun	4	0	100.00%	

Other mentionable items:

1. If the board of directors declines to adopt or modify a proposal of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the Board of Directors, and the Company's response to the remuneration committee's opinion (e.g. the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified) : None
2. Resolutions of the remuneration committee objected to by members or expressed reservations on and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinions should be specified : None

3. Responsibilities of the Remuneration Committee

To evaluate the remuneration of the Company's directors, supervisors, and managers from a professional and independent standpoint and provide recommendations to the Board.

(II) The state of the company's performance of corporate social responsibilities, deviation from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons:

Items	Implementation			Deviation from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Description	
1. Does the Company follow the principle of significance to conduct risk evaluation regarding the issues of environmental protection, social issues, and corporate governance, and establish the risk management policy or strategies?			The Company has established "Corporate Social Responsibility Best Practice Principles." The Company incorporates CSR into the operational activities and development, and it follows the "Guidelines for moral conducts" and "Guidelines for risk management" to establish the structure of governance, relevant moral standards, and to enhance risk management system with a view to realizing intact corporate governance and protect public welfare.	Follows the "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"
2. Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?		V	The Company has not established a designated unit for the specific obligation, while each department fulfills the corporate social responsibility while performing the designated tasks.	The Company may establish a designated unit depending on the needs for operation.
3. Issues of Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable	V		(1) As a corporate of information software industry, the Company does not produce any waste that is hazardous for human body. (2) The Company implements classification of waste, promotes measures for conserving electricity and	Follows the "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"

Items	Implementation			Deviation from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
<p>material which have low impact on the environment?</p> <p>(2) Does the Company devotes itself in improving efficiency of using various resources and using the recycled materials to lower the impact on the environment?</p> <p>(3) Does the Company evaluate the potential risks and opportunity that climate change may bring on the corporate while taking responsive measures to relevant issues?</p> <p>(4) Does the company estimate the greenhouse emission, water consumption, and the aggregate weight of waste materials over the past two years as well as establish company strategies for energy conservations, carbon reduction, and management policies for reducing other waste materials?</p>	<p>V</p> <p>V</p>	<p>V</p>	<p>water, and encourages employees to carry their own reusable utensils so as to improve the efficiency of applying various resources.</p> <p>(3) The Company encourages our employees to take mass transportation systems when going out on business runs, as well as saving energy by setting a reasonable temperature for the air conditioning system and shutting off the lights and computers during lunch break and after work.</p> <p>(4) The Company has not established relevant mechanism and policies.</p>	<p>The Company belongs to the software service sector. To be ego-friendly, it mainly promotes that employees should minimize carbon footprint by reducing consumption of printing paper and sorting garbage. The water consumption and aggregate weight of waste over the past two years have not been estimated.</p>

Items	Implementation			Deviation from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
4. Social responsibility issues (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		(1) The Company established our human resources policies by providing an effective and appropriate grievance mechanism with respect to matters adversely impacting the rights and interests of the labor force. In order to enforce corporate social responsibility, the basic human rights of all our employees and stakeholders, we follow the policies of “The Universal Declaration of Human Rights”, “The UN Business & Human Rights Guiding Principles”, “The UN Global Compact” and the guidelines of the International Labor Organization, and actively enforces works to protect human rights. The Company also forbids any form of sexual harassments, discriminations, threats of violence. The Company ensures there is no inequality in our hiring policy, no child laborer, and includes minorities and physically/mentally challenged employees. We establish a fair and reasonable remuneration policy. The Company also encourages our employees to form and join clubs. We offer a safe and healthy working environment that ensures the human rights of our employees, and follows the local labor regulations at where we operate our business.	Follows the “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	V			
	V			

Items	Implementation			Deviation from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
(2) Does the Company establish and implement reasonable employee compensation policy (including remuneration, leave policy, and other welfare) and adjust remuneration in accordance with the operational performance or result?	V		(2) The Company has established “Guidelines for Human Resource Management” and “Principles for distributing bonuses.” The performance review is conducted periodically, and employee remuneration would be adjusted according to the operational performance and outcome.	
(3) Does the Company provide employees with safe and healthy work environment and offer educational training sessions about security and hygiene periodically?	V	V	(3) The Company asks our employees to have regular health check-ups. The office is a strictly no-smoking zone, with fire extinguishers, smoke detectors and related equipment fully installed. The elevators in the facilities are set with access control, and we will cooperate with the building management committee to practice fire drills from time to time, in order to offer a safe and healthy environment for the employees. The Company enforces regular disinfection and sanitizing procedures in the offices, and on the water-dispensers. The Company also established a breastfeeding room with breast-milk preservation equipment to provide sufficient time for employees to breast-feed or to collect milk. The company has set up a grievance mechanism for reporting sexual complaints and any concerned party,	

Items	Implementation			Deviation from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
<p>(4) Does the company provide its employees with career development and training sessions?</p> <p>(5) Does the Company observe the international criteria and relevant laws to ensure customer health and safety, client’s privacy, proper marketing and labeling while offering products and service, and establish relevant policies and channel for complaint to protect consumers’ rights?</p>			<p>to ensure the safety of the employees and the operational sustainability of the environment.)</p> <p>(4) Through the orientation training courses, the new employees are able to understand the Company’s positioning in the industry and the general future development of the company. The Company also offers professional internal training courses from time to time for our employees to learn some new professional skills, and improve their sales or development abilities. Furthermore, all training courses will be arranged accordingly to better fit the requirements of each department. Not only did the Company set up a center that is dedicated specifically for employee training courses, we also have an online e-learning system. The online learning system provides the employees a more diverse and easy method for the employees to access the learning platform with the professional courses they need, in order to expand their professional knowledge.</p> <p>(5) The Company values the consumers’ rights and observes relevant laws of protecting personal information. It has established customer service department, online technique service department, on-the-job training institute, and e-learning platform. The</p>	

Items	Implementation			Deviation from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
(6) Does the Company establish proper supplier management policies and require that suppliers should observe regulations concerning issues of environmental protection, workplace safety and hygiene, or laborers’ rights, and monitor the implementation?			customer satisfaction survey and other after-sale service would be conducted to ensure consumers’ rights. (6) The Company has not placed specific requirements in the agreement signed with the suppliers.	
V. Does the Company refer to the internationally adopted principles or guidelines to compile corporate social responsibility report and other reports to reveal non-financial information of the Company? Is the aforementioned report certified or guaranteed by an authorized third party?		V	The Company does not have plan for compiling corporate social responsibility report at present.	The Company may consider whether to compile CSR report according to the needs of business operation.
VI. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation : There is no huge differences from the corporate social responsibility policy that the Company has established and “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies.” Please refer to the company’s website and the Market Observation Post System for related information.				

Items	Implementation			Deviation from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
VII. Other important information to facilitate better understanding of the company’s corporate social responsibility practices: Besides managing the Company’s business operations, the company also values greatly the welfare of the society. The Company occasionally participates in social charity events, emergency relief aids and other activities that are beneficial to the public society.				

(III) Ethical Corporate Management, deviations from the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons

Items	Implementation Status			Deviations from the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Does the company establish its ethical corporate management policies through adoption of Board of Directors Meeting, declare such procedures in its guidelines and external documents, as well as the commitment from its board and veteran managerial staff to implement the policies?</p> <p>(2) Does the company establish policies to detect unethical conduct, periodically analyze inspect business activities where there is high risk for unethical conducts to occur, and set up preventive measures accordingly, which includes at least preventions for conducts specified in Article 7 item 2 of Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?</p> <p>(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, and make periodical review and amendment for the aforementioned policy?</p>	<p>V</p> <p>V</p> <p>V</p>		<p>(1) The Company has established the “Integrity Operations Code” and has been actively cooperating with officials on amending the code along with the official regulations, as well as asking all employees including the Board of Directors and management teams to fully practice the “integrity operation codes.”</p> <p>(2) The company has established “Codes of Ethical Conduct” and has a designated person to periodically review whether inappropriate transfer of money, inappropriate profit, and other unethical conducts; violations of internal and external persons can be reported to relevant units of the Company according to the aforementioned guidelines.</p> <p>(3) The company states in our regulations that all employees are forbidden to accept or give any money, to profit from any dishonest methods, if any violations are discovered, all external and internal personnel can report it to the related department under the appropriate procedures, and such procedures would be reviewed periodically.</p>	Follows the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies”
<p>2. Fulfill operations integrity policy</p> <p>(1) Does the company evaluate business partners’ ethical records and include ethics-related clause in business</p>	V		(1) The employees of the Company strictly follow the related regulations and other codes of conducts	Follows the “Ethical Corporate Management

Items	Implementation Status			Deviations from the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
<p>contracts?</p> <p>(2) Does the company establish an exclusively dedicated unit supervised by the Board to be in charge of promoting corporate integrity, and periodically (at least once a year) report to the Board about the ethical operation policy and prevention of unethical conducts?</p> <p>(3) Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p> <p>(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and do the internal audit units plan relevant procedures based on the outcome of risky conduct evaluation so as to check how the unethical conduct prevention measures are implemented, or entrust the CPA to audit relevant measures?</p> <p>(5) Does the company regularly hold internal and external educational trainings on operational integrity?</p>	V	V	<p>during the operation of the business, and put being honest and trustworthy as the Company's priority.</p> <p>(2) The Company has not yet established an exclusive (or concurrently) unit dedicated to promote corporate integrity.</p> <p>(3) The Directors of the Board would not be present during the discussion and voting process of a subject that could present a conflict of interest during the Board meetings</p> <p>(4) To ensure the implementation of corporate integrity, the Company has established an effective internal control system, methods and accounting system. The internal auditing unit sets up an audit plan and implements them according to the plan, as well as produces an auditing report for the Board of the Directors.</p> <p>(5) The Company would promote operational integrity during internal meetings and educational trainings.</p>	<p>Best-Practice Principles for TWSE/TPEX Listed Companies”</p> <p>The Company has established legal unit to promote ethical operation policy, and whether it will establish a designated unit for relevant affair depends on the operational plan in the future.</p>
<p>3. Operation of the integrity channel</p> <p>(1) Does the company establish both a reward/punishment system and integrity hotline? Can the accused be reached by an appropriate person for follow-up?</p>	V		<p>(1) The Company has established a grievance mechanism that states clearly of the whistle-blowing system and disclosed it on the Company's website. If any stakeholders were to discover any actions that go against integrity or hurt the rights and interest of the Company,</p>	<p>Follows the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies”</p>

Items	Implementation Status			Deviations from the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Description	
(2) Does the company establish standard operating procedures as well as follow-up procedures after the investigation for confidential reporting on investigating accusation cases? (3) Does the company provide proper whistleblower protection?	V V		they can report them to the related unit through the grievance mechanism. (2) The Company’s grievance mechanism has established standard operating procedures, tracing process, and a confidential system in the related matter. (3) The Company’s grievance mechanism has established related procedures to protect the whistleblower.	
4. Strengthening information disclosure (1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	V		(1) All related information is disclosed in the investors’ section on the Company’s website and in MOPS	Follows the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies”
5. If the company has established ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation : There is no major difference between the Company’s “Integrity Operations Code” and the “Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.” Please refer to the MOPS and the Company’s website for related information.				
6. Other important information to facilitate a better understanding of the Company’s ethical corporate management policies (such as review and revision of regulations): The Company strictly abides by its rules, the Securities Exchange Act, laws pertaining to publicly traded companies, and other relevant regulations that help implement and maintain business integrity.				

(VII) If the company has adopted corporate governance best-governance best-practice principles or related bylaws, disclose how these are to be searched : Please refer to the Company’s website or MOPS.

(VIII) Other significant information that will provide a better understanding of the state of the company’s implementation of corporate governance may also be disclosed :

1. Status of Directors and Supervisors in continuing their education in 2019 :

Title	Name	Date	Organizing Unit	Course Title	Hours Spent on the Course
Director	Tsurumi Hironobu	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Director	Wakamatsu Yasuhiro	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Director	Kuo, Yi-Lung	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Director	Hsu, Hui-Ju	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Independent Directors	Yan, Jun-De	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Independent Directors	Lin, Hui-Fen	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3

Title	Name	Date	Organizing Unit	Course Title	Hours Spent on the Course
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Independent Directors	Chen, Yen-Xun	June 20, 2019	Taiwan Securities Association	Practical procedure for transferring equities and tax planning	3
		June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Mergers and Acquisitions and Private Equity Council	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
		November 21, 2019	Securities and Futures Institute	Seminar on practices of corporate governance and regulation for securities	3
Supervisor	Liu, Cheng Ho	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Supervisor	Huang, Xiang-Min	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3
Supervisor	Tamehiro Akio	June 24, 2019	Taiwan Corporate Governance Association	Innovation in the cross-disciplinary transformational leadership	3
		August 5, 2019	Taiwan Corporate Governance Association	Principles for directors and supervisors to monitor corporate risk management strategies and emergency response measures	3

2. Status of Managers in continuing their education in 2019:

Title	Name	Date	Organizing Unit	Couse Title	Hours Spent on the Course
Financial Director	Lin, Chi-Ming	March 13, 2019	Accounting Research and Development Foundation	Practical procedure for filing Profit-seeking Enterprise Annual income tax.	3
		March 13, 2019		An analysis for issues about the latest laws regarding securities, financing, tax, and professional	3
		June 12, 2019		An analysis for speculations in the latest corporate governance and practical responsive measures.	3
		June 12, 2019		An analysis on the latest regulations regarding securities, financing, and tax as well as professional criteria.	3
		August 14, 2019		The best practice and analysis on the corporate's strategy for reviewing transactions between related persons.	3
		August 14, 2019		An analysis on the latest regulations regarding securities, financing, and tax as well as professional criteria.	3

(IV) Internal Control System Execution Status

1. Statement of Internal Control System

Otsuka Information Technology Corp.
Statement of INTERNAL Control System



Date : March 16, 2020

Based on the findings of a self-assessment, Otsuka Information Technology Corp. states the following with regard to its internal control system during the year 2019:

- (1) The Company acknowledges that the implementation and maintenance of an internal control system is the responsibility of the Board of Directors and management, and the Company has established such system. The internal capital system is aimed to reasonably assure that the goals such as the effectiveness and the efficiency of operations (including profitability, performance and protection of assets), the reliability of financial reporting and the compliance of applicable laws and regulations are achieved.
- (2) The internal control system has its innate restriction. An effective internal control system can only ensure the foregoing three goals are achieved; nevertheless, due to the change of environment and condition, the effectiveness of an internal control system will be changed accordingly. However, the internal control system of the Company has self-monitoring function and the Company will take corrective actions once any defect is identified.
- (3) According to the effective judgment items for the internal control system specified in “Highlights for Implementation of Establishing Internal control System by Listed Companies” (hereinafter referred to as “Highlights”) promulgated by the Securities and Futures Commission, Ministry of Finance R.O.C., the Company has made judgment whether or not the design and execution of the internal control system is effective. The judgment items for internal control adopted by “Highlights” are, based on the process of management control, for classifying the internal control into five elements : 1. Control environment; 2. Risk assessments; 3. Control activities; 4. Information and communication and 5. Monitoring. Each element also includes a certain number of items. For the foregoing items, refer to “Highlights”.
- (4) The Company has adopted the aforesaid judgment items for internal control to evaluate the effectiveness of design and execution of the internal control system.
- (5) Based on the above-mentioned result of the evaluation, the Company suggests that the internal control system, including the design and execution of internal control relating to the effectiveness and efficiency of operation and reliability of financial reporting, the compliance of applicable law and regulations have been effective and they can reasonably assure the aforesaid goals have been achieved.
- (6) This statement will be the main content for the annual report and prospectus and will be disclosed publicly. If the above contents have any falsehood and concealment, it will be covered in the liability as mentioned in Article 20, 32, 171, and 174 of the Securities and Exchange Law.
- (7) This Statement has been approved by the meeting of Board of Directors on March 16, 2020, and those 7 directors present all agree at the contents of this statement.

Otsuka Information Technology Corp.

Chairman : Tsurumi Hironobu

General Manager : Kuo, Yi-Lung



2. If the company has commissioned external auditors to review the company's internal control system, the external auditor's report should be disclosed : Not applicable.

(X) Conviction of corporate or employees' wrongdoings, Company's punishment for employees for violating internal control to subject individuals who have had a material impact on shareholders' equity or securities price to a specified penalty, major faults and improvements during the recent fiscal period and until the date of publishing of the annual report : None.

(V) Major Resolutions of Shareholders Meeting and Board of Directors Meeting:

1. Major resolutions of the Board of Directors Meeting

Date	Resolution
March 15, 2019	<ol style="list-style-type: none"> 1. Review the employee salary compensation plan. (Brought up by the Remuneration committee) 2. Review the salary compensation plan for directors and supervisors. (Brought up by the Remuneration committee) 3. Approved the business report, and the financial statements of year 2018. 4. Approved the distribution of retained earnings for year 2018. 5. Regular Evaluation of external auditor's independence 6. Drafted the 2018 statement on the Internal Control System after completing the self-assessment with results that reached the presumed target goal. 7. Amendments on the Articles of Incorporation. 8. Amendments on the Board of Directors Performance Evaluation Measures and Procedures. 9. Approved the standard procedures for executing the Board of Directors' requirements. 10. Amendments on the Company's "Delegation of Responsibilities". 11. Amendments on the Company's Procedures for Acquisition or Disposal of Assets. 12. Amendments on the Corporate Governance Practices and Principles 14. The re-appointment of Directors and Supervisors. ° 15. Lifted the non-competition obligation on the newly appointed directors. 16. Proposed the loan of CNY 5 million to subsidiary Oitc Information Technology Corp. in Shanghai (Hereinafter referred as Oitcit Corp.) through Otsuka Software Trading Corp. in Dongguan (Hereinafter referred as Otsuka Dongguan Corp.) with regard to the flexible utilization of funds. 17. Discussed matters of the 2019 general shareholders meetings.
May 10, 2019	<ol style="list-style-type: none"> 1. Adopted the consolidated financial report and accountant's review report draft of the company's first quarter of 108 years. 2. Modification of the Company's Articles of Incorporation. 3. Nominate the candidates for directors (including independent director) and supervisors. 4. Lifting the new company's non-competition prohibition case. 5. The company transferred to invest in the establishment of a subsidiary case. 6. Provide endorsement guarantees for subsidiaries. 7. Amend the company's "finance loan and other people's operating procedures" case. 8. Amend the company's "endorsement guarantee operating procedures" case. 9. Convene the shareholders for matters related to the 2019 shareholders' meeting.
June 24, 2019	<ol style="list-style-type: none"> 1. Reelection of the Chairperson. 2. The plan to recruit remuneration committee members

Date	Resolution
August 5, 2019	<ol style="list-style-type: none"> 1. Review the 2019 performance evaluation of managerial staff. 2. Review principles for the mid-year bonus distribution and review the plan for distributing mid-year bonus. 3. Review the 2019 plan for distributing the employees' remuneration. 4. Adopt the Company's consolidated financial report for Q2 2019 and the CPA's review report. 5. Determine the 2018 cash dividend base date and payment date. 6. Endorsement for the subsidiary To Gather Corporation. 7. Amend the internal control system of the Company.
November 11, 2019	<ol style="list-style-type: none"> 1. Adopt the Company's consolidated financial report for Q3 2019 and the CPA's review report. 2. Plan to provide loan and amount of loan to the subsidiary To Gather Corporation. 3. Designate the person in charge of the Company's seal for endorsement.
December 16, 2019	<ol style="list-style-type: none"> 1. Review the policy, system, standard, and structure of remuneration for directors and supervisors. 2. Review the items of remunerations for managerial staff which are to be implemented in 2020. 3. Review the 2019 year-end performance evaluation result. 4. Review the 2019 year-end bonus for managerial staff. 5. The Company's Budget of the operational plan of 2020. 6. The Company's 2019 audit fee for CPAs. 7. Appoint the Company's director of audit. 8. Amend the Company's internal control system. 9. The Company's Audit plan for the year of 2020.
March 16, 2020	<ol style="list-style-type: none"> 1. Plan for distribution of employee's remuneration. 2. Plan for allocation and distribution of remuneration for directors and supervisors. 3. Adopt the Company's 2019 Business Report, Individual Financial Report, and Consolidated Financial Report. 4. Adopt the plan for 2019 earnings distribution. 5. Regular evaluation for independence of the Company's CPA. 6. Statement of 2019 Internal control system 7. Amend the Article of Association 8. Amend the Rules of Shareholders' Meetings. 9. Amend Procedure for Election of Directors and Supervisors 10. Amend the Regulations Governing Making of Endorsement/Guarantees. 11. Amend the Regulations Governing Loaning of Funds. 12. Amend the Regulations Governing the Acquisition and Disposal of Assets 13. Establish the Rules of Audit committee. 14. Amend the Rules of Board of Directors' Meeting 15. Amend the Ethical Corporate Management Best Practice Principles. 16. Amend the Rules for Remuneration Committee. 17. Elect additional directors. 18. Life the limit of competition on new directors of the Company. 19. Loan 5 million RMB dollars to the Company's subsidiary in Shanghai. 20. Adopt matters about convening the 2020 Shareholders' regular meeting.
May 11, 2020	<ol style="list-style-type: none"> 1. Adopt the Company's consolidated financial report for Q1 2020 and the CPA's review report. 2. Determine the base date and payment date of 2019 cash dividend.

Date	Resolution
	3. Amend the "Corporate Governance Best Practice Principles" and "Corporate Social Responsibility Best Practice Principles" for the Company. 4. Amend the "Procedures for handling directors' requests," and submit the procedures for review. 5. Amend the "Rules governing the Scope of Powers of Independent Directors," "Guidelines for the Adoption of Codes of Ethical Conducts," "Principles for transaction with specific companies and related persons," "Rules governing Financial and Business matters between the Company and its affiliated enterprises," "Procedures for suspending and resuming operation of transaction," "Principles for managing law-abiding conducts," "Procedures for managing the compilation of financial report," and "Procedures for Handling Materials Inside Information." 6. Amend the Company's "Principles for division of obligations."

2. Major resolutions of Shareholders' Meetings and its implementation status

Date	Resolution	Implementation Status
June 24, 2019	1. Business Report and Financial Statements of the year 2018.	Financial Statements certified by CPA are disclosed on the Company's website and MOPS.
	2. The statement of surplus allocation for the year of 2018.	Cash dividend has been distributed on September 20, 2019.
	3. Reelection of supervisors and directors.	The relevant information have been disclosed on MOPS.

(VI) Document or written statement that states different opinions by board members or supervisors against the approved major resolutions by the board meeting in the recent fiscal period and until the date of publishing of the annual report: None.

(VII) Resignation or Dismissal of Directors, General Managers, Accounting Managers, Financial Managers, or Internal Auditing Managers, corporate governance manager, or research managers in Preparation of Financial Reports :

May 1, 2020

Title	Name	Appointment	Date of Termination	Reasons for Resignation or Dismissal
Accounting Manager	Jian Huan-wei	May 11, 2018	August 26, 2019	Resignation

V. Information on Account Fees

(I) Disclosure of the Range of Auditing Fee

Auditing Firm	Name of the CPA		Audit Period	Remarks
KPMG TW	Wu, Mei-Ping	Zhuang, Jun-Wei	2019	

1 Unit : NT\$1,000

Expense Scale	Fee Category	Audit Fees	Non-Audit Related Fees	Total
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1	Under NT\$2,000	—	—	—
2	NT\$2,000 (Included) ~ NT\$4,000	✓	—	✓
3	NT\$4,000 (Included) ~ NT\$6,000	—	—	—
4	NT\$6,000 (Included) ~ NT\$8,000	—	—	—
5	NT\$8,000 (Included) ~ NT\$10,000	—	—	—
6	NT\$10,000 (Included) and above	—	—	—

(II) If any of the matters listed below should exist, related information should be disclosed:

1. The amount of non-auditing relevant fees charged by the appointed independent auditor and the related parties reaches over 1/4 of the Company's annual auditing expenses : Not Applicable
2. If there is any change in the appointed independent auditors and the Company's annual auditing expenses decreased simultaneously : Not Applicable
3. Auditing expenses decreased by 10% in comparison to the previous year : Not Applicable

VI. Information on The Change of Accountants :

(I) About the Former CPA :

Replacement Date	March 2020		
Reasons and Explanations of Replacement	In response to cooperate with the organizing of KPMG TW's internal structure, the Company has since Quarter 1 of 2020, replaced the original CPAs Wu, Mei-Ping and Chuang, Jun-Wei with Wu, Mei-Ping and Fu, Hong-Wen.		
Describe whether the Company terminated or the CPA did not accept the appointment	<div>Client</div> <div>Status</div>	CPA	Consignor
	Appointment terminated automatically	✓	—
	Appointment rejected (discontinued)	—	—
Other issues (except for unqualified issues) in the audit reports within the last two years	None		
Differences with the company	Yes	—	Accounting principles or practices
		—	Disclosure of financial statement
		—	Audit scope or steps
		—	Others
	No	✓	
Other Matters Revealed (Disclosures Specified in Article 10.6.1.4-7 of the Standards)	None		

(II) About Successor CPAs : Not Applicable

(III) The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards : None

VII. Information on the Service of the Company's Chairman, General Manager, and Financial or Accounting Managers at the Accounting Firm or Its Affiliates within a Year : Not Applicable

VIII. Any transfer of equity interests and/or pledge of or change in equity interests (during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report) by a director, supervisor, managers, or shareholders with a stake of more than 10 percent during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report :

(I) Changes in Directors, Supervisors, Managers, or major shareholders' shareholdings.

Title	Name	2019		Current Year to May 1st	
		Shareholding Increase/ Decrease	Pledged Shares Increase/ Decrease	Shareholding Increase/ Decrease	Pledges Shares Increase/ Decrease
Juridical Person Director	Otsuka Corp.	0	0	0	0
Juridical Person Director Representative/ Chairman	Tsurumi Hironobu	0	0	0	0
Juridical Person Director Representative	Wakamatsu Yasuhiro	0	0	0	0
Director/General Manager	Kuo, Yi-Lung	0	0	0	0
Director/Assistant General Manager/ Head of the Administration and Human Resource Department	Hsu, Hui-Ju	1,000	0	1,000	0
Independent Director	Yan, Jun-De	0	0	0	0
Independent Director	Lin, Hui-Fen	0	0	0	0
Independent Director	Chen, Yen-Xun	0	0	0	0
Supervisor	Huang, Xiang-Min	0	0	0	0
Supervisor	Liu, Cheng-Ho	0	0	0	0
Supervisor	Tamehiro Akio	0	0	0	0
Assistant General Manager and	Song, Jin-Cheng	0	0	0	0

Title	Name	2019		Current Year to May 1st	
		Shareholding Increase/ Decrease	Pledged Shares Increase/ Decrease	Shareholding Increase/ Decrease	Pledges Shares Increase/ Decrease
Director of Office Five					
CTO	Xie, Qi-Lu	0	0	0	0
Financing Associate manager	Lin, Chih-Ming	0	0	0	0
Accounting Deputy Manager	Fu, Kai-Li	0	0	0	0
Assistant Manager Of Government Educational Department Two (Note 1)	Shi, Fu-Chuan	0	0	0	0

Note 1 : The changes of the shareholdings are before their termination.

(II) Information on Shares Trade between Directors, Supervisors, Manager, or shareholders that holds more than 10 % and a Related Party : None

(III) Information on Shares Pledge between Directors, Supervisors, Manager, or shareholders that holds more than 10 % and a Related Party : None

IX. Information, if any, on the company's 10 largest shareholders that is a related party, spouse, or a relative within the second degree of kinship of another :

May 1, 2020 Unit : Share %

NAME	SHARES HELD		CURRENT SHARES HELD BY THE SPOUSE & MINOR CHILDREN		CURRENT SHARES HELD IN THE NAME OF OTHERS		RELATIONSHIPS AMONG THE TOP TEN SHAREHOLDERS, ANYONE WHO IS A RELATED PARTY, SPOUSE, OR SECOND-DEGREE KINSHIP OF ANOTHER : NAME AND RELATION		REMARKS
	SHARES	%	SHARES	%	SHARES	%	NAME	RELATION	
Otsuka Corp.	6,465,900	37.82%	0	0	0	0	None	None	
Liu,Bo-Wen	1,695,000	9.91%	0	0	0	0	None	None	

NAME	SHARES HELD		CURRENT SHARES HELD BY THE SPOUSE & MINOR CHILDREN		CURRENT SHARES HELD IN THE NAME OF OTHERS		RELATIONSHIPS AMONG THE TOP TEN SHAREHOLDERS, ANYONE WHO IS A RELATED PARTY, SPOUSE, OR SECOND-DEGREE KINSHIP OF ANOTHER : NAME AND RELATION		REMARKS
	SHARES	%	SHARES	%	SHARES	%	NAME	RELATION	
Tu, Shui-Cheng	1,553,000	9.08%	0	0	0	0	None	None	
The Otuska Information Technology Corp. Employee Welfare Trust Account handled by Bank SinoPac	811,377	4.75%	0	0	0	0	None	None	
Tamehiro Akio	610,050	3.57%	0	0	0	0	None	None	
Tsao, Ming-Hsiung	257,000	1.50%	0	0	0	0	None	None	
Chiang, Kuan-Yuan	152,000	0.89%	0	0	0	0	None	None	
Chang, De-Ming	142,000	0.83%	0	0	0	0	Chang, Cun-Yi	Father and Son	
Chang, Cun-Yi	137,000	0.80%	0	0	0	0	Chang, De-Ming	Father and Son	
Kuo, Pao-Chang	137,000	0.80%	0	0	0	0	None	None	

X. The total shares Held on the Same Re-invested Bussiness by the Company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the company, Along with the total Shareholdddng Ratio :

March 31, 2020 Unit : Shares %

Re-Invested Businesses	The Company Investments		Investments from Directors, Supervisors, Managers, and Directly or Indirectly Controlled Businesses		Total Investments	
	Shares	%	Shares	%	Shares	%
Otsuka Information Technology Ltd.	32,760,000	100%	—	—	32,760,000	100%
To Gather Corporation	1,350,000	90%	—	—	1,350,000	90%

IV. Capital Raising Activities

I. Capital and Shares

(D)Source of Capital Stock

May 1, 20120 Unit : Share

Share Types	Authorized Capital Stock			Remarks
	Outstanding Capital Stock (Note)	Unissued Stock	Total	
Common Stock	17,097,000 Shares	2,903,000 Shares	20,000,000 Shares	None

Note : Over-the-counter shares

Unit : 1000 Shares; Par Value is expressed in NT\$1

Year/Month	Par Value	Authorized Capital Stock		Paid-In Capital		Remarks		
		Shares	Amount	Shares	Amount	Source of Capital	Capital Increased by Assets Other Than Cash	Others
1997/08	10.0	10,000	100,000	10,000	100,000	Established	None	Approved on 1997/08/04 (86) No. 114296
1998/10	10.0	20,000	200,000	16,000	160,000	Capital Increase by Cash	None	Approved on 1998/10/30 (87) No. 133606
2000/05	10.0	20,000	200,000	8,300	83,000	Capital Decrease	None	Approved on 2000/05/19 (89) No. 115284
2000/05	10.0	20,000	200,000	11,620	116,200	Capital Increase by Cash	None	Approved on 2000/05/19 (89) No.115284
2007/06	10.0	20,000	200,000	12,355	123,550	Capital Increase by Employee Bonuses	None	Approved on 2007/06/27
2007/06	32.0	20,000	200,000	13,955	139,550	Capital Increase by Cash	None	No.09632332060
2008/11	25.0	20,000	200,000	16,240	162,400	Capital Increase by Cash	None	Approved on 2008/11/17 No.09733443280
2009/08	15.5	20,000	200,000	16,485	164,850	Issuance of Employee Stock Option Plan	None	Approved on 2009/08/28 No.098329654603
2010/04	14.0	20,000	200,000	16,535	165,350	Issuance of Employee Stock Option Plan	None	Approved on 2010/04/07 No.0993076728
2010/08	14.0	20,000	200,000	16,672	166,720	Issuance of Employee Stock Option Plan	None	Approved on 2010/08/31 No.0993151897
2011/03	12.6	20,000	200,000	16,719	167,190	Issuance of Employee Stock Option Plan	None	Approved on 2011/03/28 No.1005017245

2011/08	12.6	20,000	200,000	16,897	168,970	Issuance of Employee Stock Option Plan	None	Approved on 2011/08/29 No.1005052486
2012/04	10.6	20,000	200,000	17,097	170,970	Issuance of Employee Stock Option Plan	None	Approved on 2012/04/02 No.1015018909

(II) Shareholder Structure

May 1, 2020 Unit : Share; Person

Shareholder Structure Quantity	Government Institutions	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions and Foreign Persons	Total
Number of Shareholders	—	1	5	1,392	2	1,400
Shareholding	—	3,000	817,208	9,776,892	6,499,900	17,097,000
Holding Percentage (%)	—	0.02%	4.78%	57.18%	38.02%	100.00%

(III) Diffusion of Ownership

1. Common Stock

May 1, 2020
Unit : Share; Person; NT\$10 Per Share

Class of Shareholding	Number of Shareholders	Shareholding	Percentage
1 ~ 999	164	17,083	0.10
1,000 ~ 5,000	1,056	1,931,170	11.30
5,001 ~ 10,000	86	700,100	4.09
10,001 ~ 15,000	28	352,909	2.06
15,001 ~ 20,000	16	295,000	1.73
20,001 ~ 30,000	11	287,000	1.68
30,001 ~ 50,000	16	636,648	3.72
50,001 ~ 100,000	11	694,763	4.06
100,001 ~ 200,000	6	790,000	4.62
200,001 ~ 400,000	1	257,000	1.50
400,001 ~ 600,000	0	0	0.00
600,001 ~ 800,000	1	610,050	3.57
800,001 ~ 1,000,000	1	811,377	4.75
Over 1,000,001	3	9,713,900	56.82
Total	1,400	17,097,000	100.00

2. Preferred Share : None

(IV) Major Shareholders

May 1, 2020 Unit : Share

NAME OF MAJOR SHAREHOLDERS	SHARES HELD	PERCENT AGE (%)
Otsuka Corp.	6,465,900	37.82%
Liu, Bo-Wen	1,695,000	9.91%
Tu, Shui-Cheng	1,553,000	9.08%
The Otuska Information Technology Corp. Employee Welfare Trust Account handled by Bank SinoPac	811,377	4.75%
Tamehiro Akio	610,050	3.57%
Tsao, Ming-Hsiung	257,000	1.50%
Chiang, Kuan-Yuan	152,000	0.89%
Chang, De-Ming	142,000	0.83%
Chang, Cun-Yi	137,000	0.80%
Kuo, Pao-Chang	137,000	0.80%

(V) Share prices together with the Company's net worth per share, earnings per share, dividends per share.

Unit : NT\$

Item		Year	2018	2019	2020 (As of March 31 st)
Market Price Per Share	Highest		52.50	96.00	108.00
	Lowest		41.50	46.10	63.90
	Average		47.62	77.30	92.17
Net Worth Per Share	Before Distribution		33.90	38.69	40.95
	After Distribution (Note 1)		30.90	33.19	35.45
Earnings Per Share	Weighted average shares		17,097	17,097	17,097
	Earnings per share (Note2)		4.34	8.37	2.36
Dividend Per Share	Cash Dividend		3	5.5	—
	Stock Dividends	0	—	—	—
		—	—	—	—
	Accumulated Undistributed Dividends (Note 3)		—	—	—
Return on Investment	P/E Ratio (Note 4)		10.97	9.24	—
	Price-Dividend Ratio (Note 5)		15.87	14.05	—
	Cash Dividend Yield (Note6)		6.30%	7.12%	—

Note 1 : Issues Shares Calculated by the end of the year, and filled in accordingly with in the distribution plan for next year that is approved by the Shareholders Meeting

Note 2 : The surplus allocation for the year 2019 has been approved by the Board of Directors, but not yet approved through the shareholders meeting, thus the distribution is done by legal fiction.

Note 3 : If the conditions of the equity issuance require that dividends not yet distributed for the year be accumulated and paid out in a later year with positive earnings, the dividends that have been accumulated up to the current year and not yet distributed shall be disclosed separately.

Note 4 : $P/E \text{ Ratio} = \text{Current year average closing price per share} / \text{earnings per share}$

Note 5 : $\text{Price-Dividend Ratio} = \text{Current year average closing price per share} / \text{cash dividend per share}$

Note 6 : $\text{Cash dividend yield} = \text{cash dividend per share} / \text{current year average closing price per share}$

(VI) Dividend Policy and Implementation Status

1. The Company's Dividend Policy

(1) Article 26 of the Articles of Incorporation

Article 26 : If the Company turns a profit in a year, no less than 5% of the profit should be distributed to its employees as compensation. Employee bonuses may be distributed by way of stock or cash dividends and the Company may issue bonuses to employees of an affiliated company that meets the conditions set by the Board of Directors. The Board of Directors shall be authorized to determine the method of distribution. And as the Board of Directors agrees if the Company turns a profit in a year, no more than 3 % should be distributed to its Directors and Supervisors as compensation. However, if the Company still has accumulated deficit from previous terms, it should first reserve the amount needed to settle the outstanding balance then distribute the compensation of the employees, directors, and supervisors as the percentage mentioned before.

The actual amount of the compensation distribution to its employees and directors and supervisors should be determined by a board meeting where no less than two-thirds of the directors are present and more than half of the directors present votes to approve the suggested amounts.

The Company shall reserve 10% of the balance amount as statutory surplus reserve after offsetting gits loss and tax payment in the previous year, capital reserve and special reserve. However, if the statutory surplus reserve has reached the total capital, the Company can use it a special reserve according to Article 41 of the Securities and Exchange Act. If the company shall have retained earnings together with the undistributed surplus earnings from the previous year, the allocation plan would be made by the Board of Directors and viewed in the shareholders meeting.

The Company observes Article 240 item 5 of Company Act to authorize the Board of Directors' meeting with attendance of two thirds of directors to accept, by consensus of the majority of the attendees, the proposal of allocating all or part of the dividend or bonus in cash and report the case to the shareholders meeting.

Article 26.1 : The Distribution of Dividend should take into consideration the operational scale of the Company's future development, along with the cash flow and the status of business earnings, in order to achieve more flexibility in the operation process and strengthen the Company's competitiveness. The surplus allocation plan made by the Board of the Directors shall reserve no less than 20% of the balance amount as shareholder's profit after offsetting its tax payment and the surplus reserve. In the distribution of profits, cash dividends shall not be lesser than 10% of the total dividends. However, the actual distribution of the shareholders' cash dividend percentage will be adjusted accordingly to the actual profit number and fund requirement status

through the resolution of a Shareholders meeting.

Article 26-2 The Company observes Article 241 of Company Act to distribute all or part of the legal reserve and paid-in capital in cash or new stocks according to the shareholding ratio of the shareholder. The Board of Directors' meeting with attendance of two thirds of directors is authorized to accept, by consensus of the majority of the attendees, the proposal of allocating all or part of the dividend or bonus in cash and report the case to the shareholders meeting.

2. The 2019 Distribution of Stock Dividends

2019 Surplus Earnings Distribution

Unit : NT\$

Item	Amount	
	Subtotal	Total
Beginning Undistributed Surplus Earnings	207,979,884	
+ : Change after re-evaluating the Benefit Plans	(7,524,847)	
Undistributed Surplus Earning in the End of the Period after the Adjustment.		200,455,037
+ : 2019 Net Profit After Tax	143,125,903	
Distributable Earnings		343,580,940
- : Legal Reserve	14,312,590	
- : Special Reserve	3,768,512	
Assign Items		
1.Shareholders' Dividend- Stock (NT\$0 Per Share)	0	
2. Shareholders' Dividend- Cash (NT\$5.5 Per Share)	94,033,500	
Undistributed Surplus Earning in the End of the Period		231,466,338
Note: The dividend is distributed with calculation to one dollar; cash dividend smaller than NT\$1 would be in aggregate counted as other type of income of the Company.		

(VII) Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting : Not Applicable

(VIII) Compensation of Employees, Directors, and Supervisors:

- Ratio or scope of compensation for employees, directors, and supervisors, as set forth in the Company's Articles of Incorporation:

If the Company turns a profit in a year, unless the Company still has accumulated deficit from previous terms, it should first reserve the amount needed to settle the outstanding balance, otherwise the Company should distribute:

- (1) No less than 5% of the profit its employees as compensation in the form of Cash or stock dividends that is to be decided by the Board of Directors.

- (2) No more than 3% as the Directors, and Supervisors' compensation.
2. The estimated amount of compensation for employees, directors, and supervisors for the current period shall be calculated based on number of employee shares of stock considering any accounting discrepancy between the actual distributed amount of employee stock dividend and estimated figure : If there is any discrepancy between the actual distributed amount of employee stock dividend and the estimated figure, the discrepancy will be listed as the adjustment of the actual distributed annual fees.
3. Information on the amount of compensation for distribution:
- (1) The Company has distributed NT\$9,412,225 as the employees' compensation and NT\$2,823,667 as the Directors and Supervisors compensation in the form of cash dividend in 2019. The amount approved by the Board of Directors is the same with the estimated annual fees.
- (2) The amount of stock dividend and ratio of the total net profit after-tax and individual employee compensation or separate financial report for the current period : Not Applicable
4. The actual distribution of compensation for employees, directors, and supervisors in the previous fiscal year (including number of shares, monetary amount, stock price, shares distributed) and any discrepancy between the actual distributed amount and amount of compensation for employees, directors, or supervisors. The discrepancy, cause, and response should be stated : There was no discrepancy.

The Resolution made on the June 24, 2019 Shareholders' Meeting for the 2018 Compensation of the employees, Directors, and Supervisors

Distributed Amount	Employee Cash Compensation	NT\$4,954,130
	Employee Stock Compensation	NT\$0
	Directors and Supervisors' Compensation	NT\$1,486,239
	Total	NT\$6,440,369

(IX) Share Repurchases : None

II. Corporate Bonds : None

III. Preferred Shares : None

IV. Overseas Depository Receipts : None

V. Employee Stock Options : None

VI. New Restricted Employee Shares or issuance of new shares for Acquisition or Exchange of other companies' Share : None

VII. Financing Plans and Implementation : There was no capital increase by cash or issuing of new shares in the last three years.

V. OPERATIONAL HIGHLIGHT

I. Business Scope

(I) Business Scope

1. Main Business Activities

Main Activities of Business Operation

CC01080	Electronic component manufacturing
CC01110	Computer and computer peripheral manufacturing
F109070	Wholesale of cultural education, instrument and educational entertainment commodities
F118010	Wholesale of IT software
F119010	Wholesale of electronic materials
F199990	Other wholesale trade
F113050	Wholesale of computer and business machinery equipment
F209060	Retail sale of cultural education, instrument and educational entertainment commodities
F213030	Retail sale of computer and business machinery equipment
F218010	Retail sale of IT software
F219010	Retail sale of electronic materials
I199990	Other consultancy
I301010	Software design services
I301020	Data processing services
I301030	Digital information supply services
J304010	Book publisher
JE01010	Rental and leasing business
E605010	Computing equipments installation construction
I501010	Product designing
F401010	International trade
ZZ99999	All business items that are not prohibited or restricted by law, except those that are subject to special approval.

2. Main business proportion

Unit: Expressed in thousands of NTD

Product	2018		2019		As of March 31, 2020	
	Amount	%	Amount	%	Amount	%
CAD	544,234	58.92	811,386	67.31	219,930	71.70
Maintenance Service	241,616	26.16	255,380	21.19	61,726	20.12
Others	137,818	14.92	138,609	11.50	25,081	8.18
Total	923,668	100.00	1,205,375	100.00	306,737	100.00

3. Current products and services

Our company mainly is devoted to offering best overall solution of R&D designing, manufacture, marketing and 3D application service area to manufacturing and construction industries. We are not only selling agent of CAID/CAD/CAM/CAE/ PDM/PLM/M&E and many professional softwares, but also offer technical application consultation, software online education guidance, prosonnel training, industry aesthetics consultancy, 3D mobile application

and VR/AR media entertainment software consultation, etc. Our core value is to satisfy customer and enhance product value by proactive service. The product attributes and business coverage is as follows:

(1) Business market

- A. Manufacturing: automatic machinery and equipment industry, 3C/IT industry and vehicle and motorcycle transportation industry.
- B. Construction industry: owner, builder, architects, engineering consultants, construction and planning agency, etc.
- C. Multimedia industry: Animation, 3D simulation model and game industry, etc.
- D. Other traditional manufacturing: furniture, kitchenware and sanitary ware, bicycle, handtool, etc.

(2) Education market

- A. Teaching excellence project cooperate with professional education software market of industrial high school.
- B. Industry-academia cooperation and cultivating talent

(3) Product agency, own-brand products and services

- A. Agent for Autodesk MFG/AEC, Maya, 3ds MAX, Unity, CAE, PTC CREO, Siemens NX, advanced 3D CAX software, Bentley, etc.
- B. Self-R&D of HyperPDM, Otsuka UG and customize service
- C. VR and AR software application integration service

(4) Marketing

- A. Five sales locations in Taiwan
- B. Three sales locations in East and South China

4. Planned new product development (service)

- (1) Along with the advance of graphics and video soft/hardware technology, VR (Virtual Reality) and AR (Augmented Reality) have becoming the important application market in the future gradually. According to Digi-Capital, it is expected to rise in VR/AR market globally, and the revenue will reach 150 billion USD in 2020. Our company has several years of developing technology in 3D graphics industry combined with marketing sources, by integrated with computer drawing, computer simulation, AI, sensor, display and network parallel processing techniques. Offering clients with high-tech simulation system generated by computer aided technologies, and having consumer experience the unfinished environment in the aspect of construction industry, or offering the display of final marketing in the aspect of manufacturing (to reduce the cost of machine delivery of international exhibition) and after sales service (to reduce the cost of time and traffic of round trip for engineer) to improve operational efficiency faster and innovate more attractive marketing mode.
- (2) Media entertainment solution, marketing 3D modeling and professional animation tools; 3D modeling creates 3D objects or shapes' mathematics to present the process of form. The created objects are called 3D model, which can be used in various industry such as movie, game, animation, post-production, architecture, construction, product development, science and medical industry are processing visualization, simulation and rendering graphic design. Our company has access to Autodesk M&E series of products, such as 3Ds Max, Maya and Unity software, etc.; by making 3D animation, simulation, special effects post-production, rendering and manage development processing, to make imagination becomes reality, and enable art editor to have a fast and creative tools to present creative ideas.
- (3) HyperPDM 2020
Up to now, HyperPDM has successfully assists hundreds of domestic clients to improve the

project developing management of products effectively. During the revision process in the past few years, we have been putting in map printing, Web, manufacturing process, model and CTO picking managements; in order to meet the demands of different clients, we also put in Addin extension function, which allows to put in various Addin elements program afterwards, and to cope with the needs of different industries. The products in the future will cooperate with Windows and 2D/3D CAD upgraded version, and continuously supporting the operational stability and enhance the performance of related function integration, and view customers' feedback as the direction of improving and enhancing



(4) CAD secondary development product

A. OITC Inventor Power Pack

We will commit Otsuka's several-year experience of developing CAD customize program project into the development of Autodesk Inventor toolkit; by CAD system providing API (Application Programming Interface) to strengthen 3D design in various functions of part drawing, assembly drawing and technical drawing, and receiving customer feedback from technical service division to constantly improve the convenience and performance of the program.

B. OITC Creo Toolkit

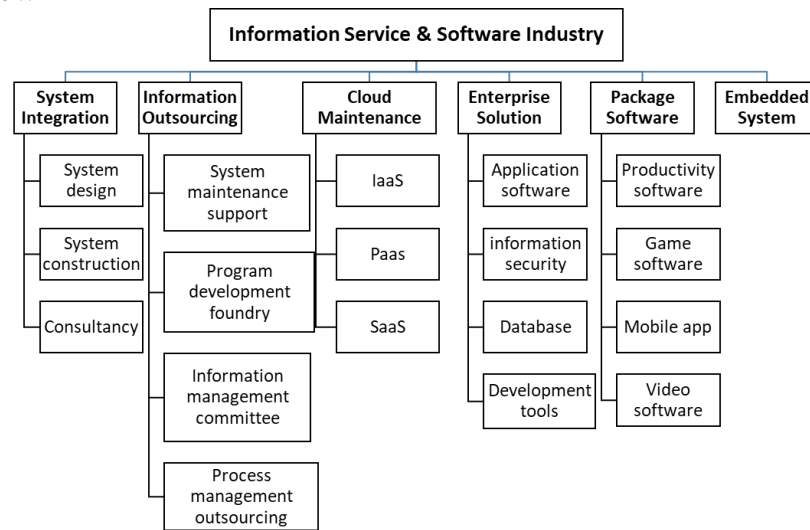
Creo, which is the main 3D modeling software of PTC (Parametric Technology Corporation), has occupies an important position in 3D design market. However, 2D technical drawing is still the priority of the on site manufacturing and assembly drawing. Therefore, the development of Otsuka's Creo Toolkit is focusing on enhancing the various functions of Creo technical drawing

C. OITC Moldflow technological parameter optimization system

Moldflow is an analyzing simulation software of injection molding, which can be used to modify component design, injection mold design and manufacturing process, the involved industries include model, product, molding and material. Otsuka combines with years of service experience, and develop three technological parameter optimization modules, MTS (Machine to Simulation), TS (To Simulation) and TM (To Machine), which can implement the actual molding parameter into Moldflow analysis, and implement into equipments through software optimization analysis, in order to improve the performance and quality of mould factory, molding factory and Moldflow customer when in practical application.

In order to increase profit and give consideration to the long-term developing goal of the company, we're still moving toward the omnibearing company of offering high added value, drawing software integration of multiple application, consultancy and 3D technology to extend business opportunities. Our strategies will follow the trend and customer's needs, and understand customer's needs are the ways to build the foundation of the development of corporate stability.

(II) Industry Overview

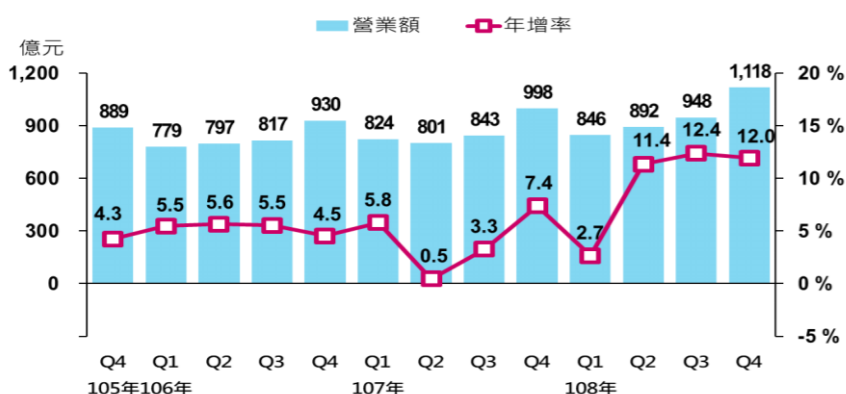


Ordering to the MIC industry definition by Institute for Information Industry, and according to products function and service offering mode, information service and software market can thereby divided as 1. The main core of information service is to offer customer with basic architecture service, development, commercial process and consultation, software support and hardware maintenance, etc., in order to create value by offering services; 2. Software in the other hand, is including application software, information security, database and development tool used by business, and game and mobile application for public. Classified by our company's main service item, which includes selling drawing software, offering complete drawing software system integrate with planning service, technical support and self-R&D customize software. It shall cover information service and software market; therefore, below is the statement of current situation and development of domestic information service and software market:

1. Status and development of information service industry

Revenue and Annual Growth Rate of Information service industry

100 million dollars



Source: Department of Statistics of Ministry of Economic Affairs

The revenue of computer and information service industry is 380.4 billion, which hit the record and the annual growth rate is 9.7%; the revenue for computer system design service industry increased by 9.2% and the revenue of Information supply service industry increased by 11.3%.

2. Software industry status and development

Traditional computer drawing field can be divided into three basic technologies, model, animation and imaging. The essential of model technique is to construct an accurate object model; the key point of animation technique is to produce simulate physical movement; imaging technique focus on producing simulate computer graphics. Domestic computer drawing software is limited by not mastering in 3D drawing engine and having differentiation of special effect software program library. Develop domestic self-imaging and visual special-effect software element, and align with business to build industry-academia-research cooperation platform, to create talent exchange and engagement should enable us to develop competitive productivity software.

Although Taiwan faces developmental retardation in recent years, the overall fundamentals is still stable, and the domestic market demand maintains a small growth, which makes the domestic information service market scale still shows an upward trend, and having stable growth for software market as well. According to the Statistics of Ministry of Economic Affairs, the revenue growth of information service industry in the last five years is as follows:

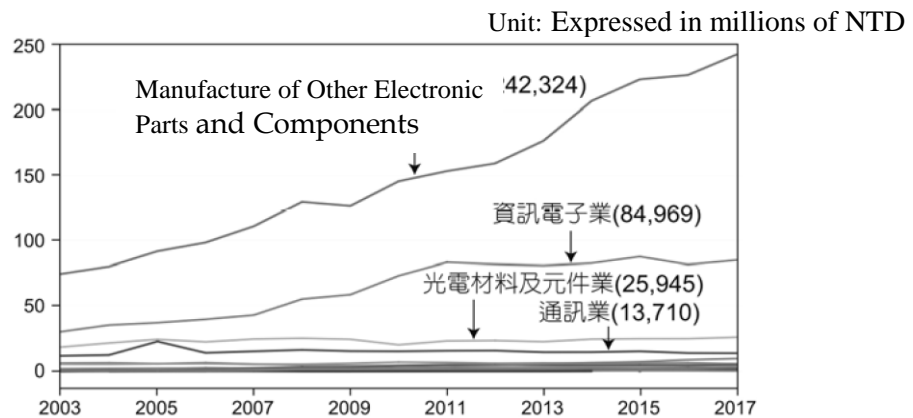
Unit: Expressed in 100 million of NTD;%

year	Computer and Information service industry in total		Computer system design service industry		Information supply services industry	
	amount	Annual growth	amount	Annual growth	amount	Annual growth
2015	3,007	2.4	2,293	2.7	714	1.3
2016	3,157	5.0	2,442	6.5	714	0.0
2017	3,323	5.3	2,540	4.0	783	9.6
2018	3,467	4.3	2,626	3.4	841	7.4
2019	3,807	9.7	2,867	9.2	936	11.3

3. Developing trend of domestic R&D

Due to our company is agent for drawing software relevant products, most of the users are after R&D; therefore, the situation of R&D investment by business can shows the development trend of software industry as well.

“Domestic Top 300 R&D” from 2003 to 2017 R&D Investment Trend



Source: Taiwan Economic Journal; Collected by Taiwan Institute of Economic Research

The main industry of domestic R&D investment is Manufacture of Other Electronic Parts and Components; as for information electronic industry, which is related to software takes second place; as of 2017, budget for R&D reached 84,969 million dollars, which presents a stable growth trend in the past decade.

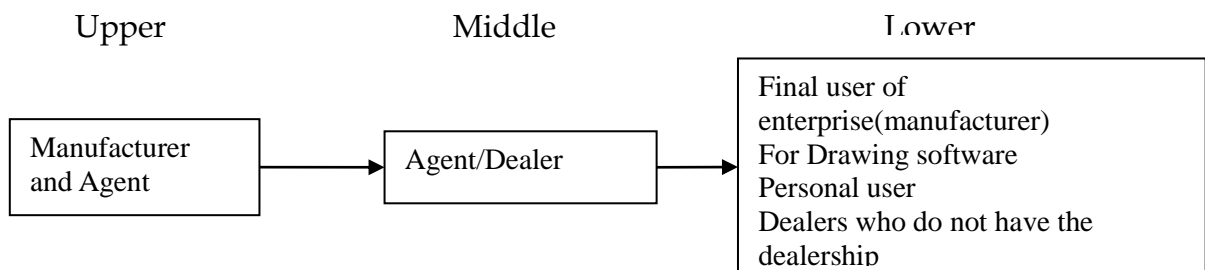
4. Industry Outlook

The MIC has proposed 10 notable trends according to its observation on development of information software industry in 2020, including the business opportunity brought by trade war, building digital trust with block chain, digital twin, one-stop smart services, transformation from Open Banking to Open Finance, Point economy, third Internet revolution, acceleration in corporate innovation, subscription economy and corporate digital transformation.

Under the constant innovation and development of technology applications of cloud computing and massive data and mobilized devices, the market scale of information service is growing constantly. According to Institute for Information Industry(III), it is predicted that the global market scale will grow from 836.8 billion USD in 2016 to 948.9 billion USD in 2019, compound annual growth rate is 4.4%; Taiwanese market rise to 181.5 billion NTD in 2019, and the compound annual growth rate is 4.1%.

As for the global software market, under the rapid development of package software in smart mobile device, application software functions renewed constantly; the embedded software of market orientation is under the traction of mobile device operating system, and the middleware demand for various sensors and Internet of Things is rising. It is predicted that global software market will grow from 619.7 billion USD in 2016 to 733.4 billion USD in 2019, compound annual growth rate is 6%; it will rise to 83.6 billion NTD in Taiwanese market, and the growth rate is 4.3%.

5. The Relevance of the Upper, Middle and Lower Stream Industry



Our company is mainly as agent for value-added selling of drawing software, offering relevant technique and system integration, the character of which is the middle-stream

industry. With the human technical sources and broad channel, our company sells merchandise directly to general company or by dealers, and provides integrated technical support services.

6. Developing Trend of Product

(1) The extension of 3D Application

At present, CAD and working tools have been developing to a smooth operation of visualize interface and 3D display, which can design a more complicated or with special material product; moreover, it can directly and fastly shows the designer's thought through the monitor, which breakthrough the problem of learning curve. With 3D printer, fast proofing is achievable in the future, or scale down the models to increase the developing efficiency of new products. In addition, Product Lifecycle Management(PLM) assists manufacturer to be product-centric, and to manage with the research, manufacture and alteration procedure of the product; it will usually combined with CAD/CAM graphic drawing, to assist with the overall design and management of the product. Although the rate of adoption of PLM is not higher than ERP or CAD/CAM, product design is expected to be more valuable in manufacturing, and under the trend of having design headquarter in Taiwan, it will be adopted more by enterprises.

(2) Adjustment and Innovation of System Integration Service

System integration service mainly assists business with information technology to achieve various operation or strategy purposes. Supplier needs to understand the operation direction, strategy needs and solution of businesses in each area, so they can assist business to make good use of resources. Due to the uncertainty of business transformation, and hardware construction is affected greatly by cloud service, the growth of consultancy will be higher than system design and construction. However, consultancy, system design and construction company will still meet with the requirement of business transformation and technology development of innovation and continue to grow.

(3) Development of High-level Drawing and Video Call Software Technology

Drawing and video call software technology have popularize in personal computer, smart portable device, digital television GPS, the smoothness of 3D animation has decide the competitiveness of the devices. With the constant improvement of soft and hardware technology, VR/AR have becoming an important application in the future; because of the drawing software technology is the core part of both industries, competitive investment of technology has been going around the globe, and the revenue is predicted to reach 150 billion USD in 2020.

7. Market Competition

Our company belongs to 3D CAX/PDM system integration consultancy, and is the only company in Taiwan market who successfully crossed manufacturing and construction industry; we mainly offer our customer with upper-intermediate 3D CAD/CAX software related application solution, technical service and consultation. Below is the analysis of product service and the competitive situation that our company's operating scale is facing:

(1) Product Analysis

Product Design & Manufacturing Collection (PDMIC), Autodesk PRDS, etc., are the bread-winning product of our company, which belong to middle-class 3D CAD drawing R&D integration package software, our main domestic competitor is SolidWorks software owned by Groupe Dassault of France. Autocad software gains the highest market share in the globe, which even reached 90% of market share especially in many areas, so does Taiwan. Therefore, there are many potential 2D users upgrading to 3D product; through the ever-changing development of technology, no matter it is the product for manufacturing solution, such as Inventor, Alias, 3DS Max, because of

owning many unique techniques and functions, they gained popularity among domestic automatic machinery industries in a short time after the year it launched. The series product has been developing up to now, it not only has the highest market share in this industry, but also leaves other 3D software far behind. Nowadays, Autodesk even comes up with new manufacturing design package software (including PRDS/FDS/VAULT/SIMULATION), and offers digital prototyping tools especially designed for manufacturing industry. Industry now values R&D creativity and the time and efficiency of product development, Autodesk design package software provides with sound 3D modeling environment and powerful solution of productivity improvement, which will bring developing motivation to industry furthermore.

In addition, our company is the sales agent for high level 3D drawing software, Creo, which is the product of American company parameter technology and has good-growth performance in recent years. This product is most widely used system in Taiwanese computer, communication, consumer electronics industry, which has powerful surface design function. Among them, CAD design solution provides with flexible parallel use of various CAD systems, which enhance design collaboration and significantly strengthen the product development process to make it more efficiently and become easier to support with, and we are looking forward to an optimistic prospect. In addition, our company has cross-strait agent for Siemens NX, which is to offer CAD/CAM/CAE/PLM with most excellent products and solving capability. Our company realizes our advantages of technique, and seizes the growth opportunity of expanding the business scope. In 2020, we will keep investing manpower and make good use of our strength to increase the product line profit and stabilize our market position.

In the aspect of architectural design, our company agent for Autodesk Engineering Construction Collection and Bentley, and is the most popular system among construction industries in the globe; in the green building trend, this product line can provide with green analysis and fulfill the benefit of energy saving and carbon reduction. Besides, offering client with integrating and exploring solutions of 3D plant design and surroundings is another major market promotion of our company. It is predicted that construction market will continuously bring in more benefits for our company this year.

From 3D drawing software developing to date, we can find the functional commonality of it, and if we are taking a comprehensive comparison, we still can find their pros and cons. However, different industry attributes will depend on the product needs to choose the suitable software. Among domestic automated machinery industry, the most common use software belongs to PRDS and PDMIC; that's because when the intrinsic Inventor launched, it best suited machinery manufacturer's needs of large assembly and structural motion simulation. Although every software has its own field, clients highly valued the educational training and online consultation services after installation of 3D drawing software implementation. Therefore, clients buying this software doesn't mean they can operate successfully and meet their needs. To conclude, user choose different softwares depends on their requirement, besides selling software, the most important thing is to provide clients with consultation and educational training services; therefore, our product still has a great advantage of expanding market.

(2) Analysis of Company's Operating Scale

According to the current status of Taiwan, there's around ten companies who sell CAD/CAX/PDM, which normally is small company with less than 20 staff, and with incomplete product line, they usually sell single product of CAD, CAM or CAE, not like Otsuka who provide with complete solution of CAD/CAX/PDM, the market coverage includes manufacturing, multimedia and construction industry, and establish a complete

provincial marketing network with more than 140 staff of marketing, technical service team and several educational training centers around Taiwan. Besides, breaking into this market needs to equip with professional Know-How; Otsuka has been running business in Taiwan for more than 20 years, the business reputation and technical skills it established has staying ahead of its competitors; moreover, the high competitive threshold it built is hard to surpass for other companies. However, the important thing is that we value customer service greatly, which will need to invest more in employee training and service-support system and have other competitors fall far behind. The cultivation of product engineers and sales person is based on software operation to offering solution to actual industry. A person equipped with marketing or technical service capability has at least 3 years of accumulated experience and practice; currently, approximately 80 technical or support personnel of OITC are teams of long-term training and with actual case experiences, which is not for general company to compete with, this is the core value of our company in drawing software market as well. Moreover, the juridical person of the company, OITC, is one of the top CAD/CAM system integrators around the globe; its mastery toward business pulse, integrating efficiency of operating management, and the prediction of future IT industry developing trend are the advance and accurate benchmark among the industries.

Therefore, under our company's effort and with the assistance of Otsuka's business experience; examining domestic and future Chinese market, Otsuka definitely has the strength of market expansion and willing to take any business challenges.

(3) The Development and Promotion of private HyperPDM products

Through the accumulated developing experience and feedbacks from many customers, HyperPDM assists customer with the management of increasing project development information of product efficiently, the product will meet with Windows system and upgrade 2D/3D CAD version in the future, continuously supporting the stable operation and improve performance of related function integration, and view customer's feedback as the direction of increase function and performance.

(III) Technology and R&D Overview:

The investment of R&D cost and successfully developed technology or products in recent years and as of the annual report printing date.

1. The R&D investing cost in recent years and as of the annual report printing date

Unit: Expressed in thousands of NTD

Year	2019	2020 As of 31 st , March
R&D Cost	6,232	1,548
Operating Revenue	1,205,375	306,737
R&D Cost to revenue ratio	0.52%	0.50%

2. Successfully developed technology or product

Our company has years of core technology of CAD/CAM integrated application, we utilize this technical advantage to develop App mobile business of 3D mobile lightweight technology, and had successfully developed 3D product interactive control, animation display of 3D cutting machine, virtual tour of 3D actual disassembly and 3D product optional accessories specification, which can actually apply to App modules function of marketing business procedure, and assist equipment manufacturer to transfer marketing mode to a more efficient 3D visualize creative mobile business and after service mode.

(IV) Long and short-term business development plans

We have been focusing on business development since the establishment of our company, in order to meet with the business developing trend and the changeable domestic, foreign business environment; we adjust our system by long and short-term plan to increase overall competitiveness. The long and short-term plans are as follows:

1. In the aspect of agent for CAX drawing software

(1) Short-term plan:

- A. Strengthen our customer service, and focus on offering fast design module of the machinery and equipment industry development for current client, to improve its design procedure and efficiency, by that we can increase the value of our technical consultation and customer loyalty, and increase our income.
- B. Training professional marketing and technical support consultation actively, so that we can provide a completed and integrated customer service.
- C. Moving toward the One Stop Solution Provider business promotion of industrial design, manufacturing, marketing and service, not only strengthen the agent product line, but also understand the future needs of the industry.

(2) Long-term plan:

- A. Integrate business internal information system, connect with customer needs and automatic supplying and marketing function; by service-oriented planning system procedure, we can lay the foundation for business growth.
- B. Moving toward improving the development speed of customer products, offering comprehensive solution for industry and technical support service, assists customer with innovative product development and increasing launch efficiency, and developing marketing scale to VR/AR development. By the long-term technical advantages in manufacturing, we develop mobile business application solution, offering high-efficient marketing source management tool and assist customer to strengthen their profitable business mode of mobile business service.

2. Self-R&D products

(1) HyperPDM

- A. Cooperate with OS system and CAD version upgrade, constantly support the stable operation and improve performance of related function integration.
- B. Refine and strengthen the managing application of HyperPDM system function, and continue to expand the system toward platform architecture, and have the most effective sharing of business R&D assets. Constantly optimize and simplify every operational surface and function based on customer feedback and suggestion.
- C. Apply with Addin expansion function to assist every client to build expansion component program by their requirement under different circumstances.

(2) OITC Inventor Power Pack

Cooperate with the sales mode of Autodesk product subscription, Otsuka provides customer with exclusive tool kit, it not only strengthen the original function of Inventor, but also added new design gadget program from time to time to reward our subscriber.

(3) OITC Creo Toolkit

Cooperate with sales mode of PTC product subscription, provides Otsuka's clients with exclusive Creo convenient design tool when facing other competitors, which highlight the better technical ability than other dealers and the advantage of CAD value added development.

(4) OITC Moldflow Technological Parameter Optimization System

As the growing of industry 4.0 around the globe, software information analysis and the integrated application and knowledge feedback of module and molding factory of the Internet is the trend for future industry development. Technological parameter optimization system implement the actual molding parameter into Moldflow analysis, and implement into equipment through software optimization analysis, enable injection molding machine to produce directly by best technological parameter.

3. Marketing and developing strategies:

(1) Short-term plan:

- A. Actively explore new CAX high level application business market, and increase market share and repurchase rate by improving customer satisfaction; while strengthen the exploration toward the demand of cloud product and mobile device solution.
- B. Overseas sales locations, actively build marketing and customer service access into local market to find new clients, and offering immediate customer service.
- C. Actively find new clients and explore the advanced needs of current clients through creative media and entertainment business department, and help with the marketing of VR/AR business.

(2) Long-term plan:

To build a system-integrated consultancy which can direct future needs of customer and developing trend. Provide various industries with complete system implementation, strengthen the exclusive characteristic, and improve consulting performance. Enable our clients to have R&D competitiveness, marketing uniqueness and reliable mobile service capability, to create a triple win for the company, clients and suppliers.

4. Business scale development

(1) Short-term plan:

- A. Continuous maintenance of CRM, improve and strengthen internal system operation to enhance client relationship management and case-tracking efficiency.
- B. Continuous implementation of internal control, audit and budget management to enhance business efficiency.

(2) Long-term plan:

Promote internationalized idea and enhance business managing capability, actively cultivate internationalized talents and moving toward the goal of international corporation.

5. Financial planning

- (1) Strengthen risk control in a short term, to serve clients with stable, high-efficient and flexible idea.
- (2) Make good use of domestic capital market and foreign financial market tool in a long term, and expand the landscape of business globalization.

II. Market and Sales Overview

(I) Market analysis

1. Analysis of sales(offering) areas of main products(service)

Unit: Expressed in thousands of NTD

item \ year	2018		2019	
	amount	%	amount	%
Domestic sales	919,886	99.59	1,202,151	99.73
Export sales(Asian area)	3,782	0.41	3,224	0.27
total	923,668	100.00	1,205,375	100.00

2. Market share, future supply and demand situation and growth of market

(1) 3D market share

Our company is agent for Autodesk, which is the manufacturer of computer graphics software CAD/CAM/CAE/PDM. According to Department of Statistics, the revenue of Taiwanese information service industry is around 272.8 billion in 2018, due to various kinds of products of information service industry, the purpose of them are different as well. It is hard to evaluate the status of each software market because of the lack of objective statistic information evaluation. However, our company has been focusing on this industry for more than 20 years, we have constantly accumulate professional knowledge to improve the depth and breadth of customer service; moreover, continuous growth of revenue shows a certain market status of the company's products agent.

(2) Supply and demand status and growth of future market

2D drawing software AutoCAD, which belongs to Autodesk software company, has the highest software market share globally, even exceeds 90% of market share especially in many areas. According to Department of Statistics, the revenue of Taiwanese information service industry from 2017 to 2019 was 78.3, 84.1 and 93.6 billions respectively, and the annual growth rate is 9.6%, 7.4% and 11.3%.

Additionally, as the constant growth of AI capability, IT industry will remain the trend of expanding as well. According to the report of research company Forrester, IT released their biggest software, the revenue will rise 7.5%, which will reach 700 billion USD; one-third of IT and communication expenses will invest in Cloud in 2019, the main motivation comes from SaaS. The market growth of SaaS business application market will exceed 20%, which will breakthrough 100 billion USD.

3. Competitive Niche

(1) Has a complete CAD/CAX/PDM integrated marketing, series products of CAD/IT government educational business sales and multiple marketing channels:

Our company has many platforms of marketing channels, besides construction and manufacturing of domestic sales, it also expands to dealers, SME and personal users; moreover, our company has a complete manufacturing mechanical automation, construction BIM and multimedia VR/AR solutions, including from conception assembly design, mechanism design, manufacture, assembly test to maintenance and display; all of which have offering equivalent solutions for software and construction, satisfying customer need with one-stop shopping from infrastructure software and engineering information management to business source planning software products.

As for operating scale, our company is one of the biggest CAX system integration companies in Taiwan, if the business operation is affected by external environment, it is a relative competitive advantage for a big-scale company. Our company holds the spirit of "in-depth service to increase product value", continuously developing in domestic market, expand market share and create customer need to increase the revenue streams; interact with OEM actively and establish indicative customers as our main product strategy and market goals.

(2) Professional service team and training center

Our company always values customer service, and possesses rich experience of salesperson, with professional technique and consultant to become a strong service team. Around 80% of personnel of our company are sales consultant, product support and project consultant. Besides providing customer with solution according to their needs, we also offer complete online customized implementation service in the mean time.

In order to provide customer with software implementation system to improve performance, create and promote future business opportunity of agent product line, our company has training center located in Taipei, Hsinchu, Taichung, Tainan and Kaohsiung. Take the software OEM training information as first draft, and programmed materials by ourselves; lectured by OEM software technical training certificated instructor, offering various lessons and CAD technical support information lesson.

(3) R&D of value added product line, high benefit for future market

Our company has more than 20 years' experience in CAD/CAX/PDM integrated marketing, we know more about customer's problems and demands during the process of cooperation between sales, technical support team and customer's salesperson. By agent for famous drawing software of foreign company, we make up for the insufficient function of original drawing software while marketing, and self developed the plug-in of Autodesk. In order to meet with industry requirement of ERP/PDM system integration in recent years, technical team has offering complete consultation for the database managements and applications. Our PDM product especially focuses on domestic SME's demand of customized small-volume production of multiple types of products, which will get closer to customer needs. With the young, impulsive and rich creativity characteristic we possess, it is more likely for us to meet the ever-changeable software industry, grasp the market pulsation and constant innovation to gain favor from business.

(4) The overall corporation development and positive synergy of supply

Our company's main shareholder Otsuka, is a famous company in Japan which has information system integration, CAD/CAM project solution and provides with service and channel support. Otsuka not only provides with related industry operating suggestion and instruction, but also has a long-term relationship of production-marketing cooperation with our main supplier. Besides our agent products Autodesk, PTC and Siemens have good performance, we grow with clients and suppliers for many years, and become the biggest system integrator of CAD/CAE/CAID/IT in Taiwan; moreover, we are the authorized agent and OEM certified training center, our new R&D products can quickly gain priority agency. Under the motivation of sustainable operation, and good operating performance of stabilized supply and marketing synergy, enable our source of supply to be more stable, and have a positive image of agent for excellent brands in sales market as well.

4. Advantages and disadvantages of development prospects and solutions

(1) Advantages

A. Agent for brand products that meets the needs of market pulsation, gain favor from market

Our company is agent for drawing software products of Autodesk, PTC, Siemens, which gain favor from domestic supplier. As the constant development of Taiwanese industry and work hard to cultivate markets, we still have relative room for development from the aspect of current market share of our company.

B. Complete before and after sales service, provide with full service of Total Solution

Our company provides suppliers with immediacy market needs and assist clients to solve technical problems quickly by professional technical R&D and supporting capability. With professional technical support, project consultation and R&D team to assist clients in completed the overall design software purchase project by the most cost effective method, and offering exclusive Total Solution by customized mode. Therefore, our company has cultivated good cooperative relationship with suppliers and clients.

C. Equip with the foundation of mainland China and overseas market exploration

The scale of information service and software market in China is still the important growth motivation for global IT market. In addition, Chinese business's average ICT budget in the proportion of business revenue is relatively low when compared with the globe; that means there's a relative room for market growth. Therefore, by duplicated Taiwanese experience as prerequisite to actively explore the market in east and south China, and explore benchmark supplier by new agent for niche product; interact with supplier actively and establish indicative customers as main product strategy and market goal.

D. We have strong R&D team which is close to customer needs, and grasp the core competitiveness of self R&D graphic peripheral software.

(2) Disadvantages and solutions

A. Limited scale of domestic market, price war with competitors

Taiwan has a small scale of information service market, with quite mature development and constant manufacturing offshoring, and due to cutting information cost from government annually, there's a fierce price war.

Solutions:

In order to expand domestic market and increase revenue, our company providing customers with high add value of after sales service and technical support to continue cultivating domestic market; by offering customers with value co-creation capability to create customer needs and increase revenue.

B. Expand overseas market, gaining resources will be a hard slog

Compare to international industry, the scale of Taiwanese industry is relatively small and has limited access to sources, it is not easy to collect information of overseas market as well.

Solutions:

Cross-selling to overseas market and develop information service in specific areas through overseas company subsidiaries, and strengthen team capabilities.

C. International industry enters the market segmentation of SME

Benefited from cloud technology, international brand industry can now has direct access to customer, and offering software and service to SME by cloud. This strategy is undoubtedly invading the survival space of our company, which will make the operating more difficult.

Solutions:

- a. Actively fight for new product agent, by maintaining multiple brands to lower the proportion of business outsourcing, and maintain our gross profit ratio.
- b. Inspect self-advantages and all the complementary assets to gain a foothold in industry and develop toward specialization.

Our company is a professional technical type of channel firm, who is a professional computer graphics, industrial design software system service, equip with high integrated manufacturing and industrial design solutions capability, and exploring future core peripheral software products technique oriented company. We mainly agent for core technology products with high gross profit and strong competitiveness, with our strong marketing consultation team to increase customer needs toward product specification, and avoiding price war. By separating market positioning and competitive advantages from competitors, we can gain higher profit in the meantime.

(II) Important purpose and production process of main products

1. Main product and its purpose

Product name	Purpose
Computer Graphics Software	<p>1.CAID : CA industrial design software, appearance design of 3D product. Innovative way of design helps business to reach excellent design standard, and brings rich profits.</p> <p>2.CAD : Computer Aided Design software: includes 3D design software for machinery purpose, pipe fitting equipment, circuit layout and civil construction.</p> <p>3.CAE : Computer-Aided Engineering software: Through engineering analysis software, we can design 3D mechanical structure while evaluating materials, physical property and mechanics factors, and proceed with mechanical engineering analysis to produce data as the reference of design improvement or reinforcement.</p> <p>4.CAM : Computer-aided manufacturing software: From the components of front-end 3D CAD design, by CAM automatic toolpath to further control machining center and reach the precise and speedy purpose, and achieve low conversion cost and high dimensional accuracy.</p> <p>5.AEC : Architectural Engineering & Construction: Combine with power and scale, visualize and documenting of BIM, this product line can provides mainstream benefits with optimization, cost control and sustainable development.</p> <p>6.Media entertainment solutions : 3D modeling and professional animation tools, includes Maya, 3Ds MAX series products, which enable artist to present creative concept by fast and creative toolset.</p>
Product Information management software	<p>PDM : Applied to related information of organization, access and manage all manufacturing products and product life cycle, enable engineers from every level clearly understand the relevance and hierarchical structure of various types of information.</p> <p>i-Reporter: Management platform solutions of Mobile inspection and collection of statistical reports</p>

2. Manufacturing process: Our company is the import agent of our main products so we do not have manufacturing process; the manufacturing of self-R&D HyperPDM mainly is copying software into media vehicle, therefore, we do not have the process compare to general manufacturing.

(III) Main raw materials supply status

Raw materials, components or Outsourcing items	Name of Manufacturer	Supply status
Computer Graphics CAD/CAM/CAX PDM / i-Reporter	Synnex(purchase Autodesk products), PTC, Siemens, CIMTOPS	stable

(IV) Suppliers (clients) name and its procurement (sales) amount and ratio, of which the procurement (sales) amounts is account for more than 10% over any year of the last two years and the variation reasons.

1. Main suppliers information over last two years:

Unit: Expressed in thousands of NTD

	2018				2019				2020 as of previous quarter			
item	name	amount	Annual net purchase ratio [%]	Relationship with issuer	name	amount	Annual net purchase ratio [%]	Relationship with issuer	name	amount	Annual net purchase ratio as of previous quarter [%]	Relationship with issuer
1	Autodesk	301,319	52.52	NA	Synnex	524,813	65.52	NA	Synnex	121,603	72.77	NA
2	PTC	84,394	14.71	NA	Grand	62,728	7.83	NA	Siemens	9,742	5.83	NA

					Tech							
	Others	188,043	32.77	NA	Others	213,486	26.65	NA	Others	35,770	21.40	NA
	Net purchases	573,756	100.00	-	Net purchases	801,027	100.00	-	Net purchases	167,115	100.00	-

Note 1 : Our company is the product agent of 3D drawing software.

Note 2 : Supplier changed from Autodesk to Synnex since May 2017.

2. Main sales customers information over last two years:

Unit: Expressed in thousands of NTD

	2018				2019				2020 as of previous quarter			
item	name	amount	Annual net purchase ratio [%]	Relationship with issuer	name	amount	Annual net purchase ratio [%]	Relationship with issuer	name	amount	Annual net purchase ratio as of previous quarter [%]	Relationship with issuer
1	LITE-ON Technology	30,350	3.29	NA	Gemhorn	41,916	3.48	NA	Delta Electronics	16,712	5.45	NA
2	Delta Electronics	25,167	2.72	NA	Formosa Technology	31,838	2.64	NA	Concord Tech	9,163	2.99	NA
3	Gemhorn	19,552	2.12	NA	Delta Electronics	29,289	2.43	NA	CGCG	7,047	2.30	NA
	Others	848,599	91.87	NA	Others	1,102,331	91.45	NA	Others	273,816	89.27	NA
	Net sales	923,668	100.00	-	Net sales	1,205,375	100.00	-	Net sales	306,737	100.00	-

Note1: Among the sales customers of our company over last two years, such as LITE-ON Technology, CECI, Delta Electronics, YAMADA ,FCFC are graphics softwares for the needs of system upgrade or project procurement, Gemhorn is as other agent.

(V) Volume of production table over last two years: The company is not the manufacturing, therefore is not applicable to the subject.

(VI) Sales volume table over last two years:

Unit: Expressed in thousands of NTD

sales volume main product	year		2018				2019			
			Domestic sales		Export sales		Domestic sales		Export sales	
	Quant-ity	Value	Quant-ity	Value	Quant-ity	Value	Quant-ity	Value	Quant-ity	Value
CAD	—	544,234	—	—	—	808,572	—	2,814		
Maintenance	—	237,521	—	4,095	—	254,970	—	410		
Others	—	137,818	—	—	—	138,609	—	—		
Total	—	919,573	—	4,095	—	1,202,151	—	3,224		

Note: The company has various kinds of products, and the units of measurement is differ from products, therefore, the quantity is not listed above.

III. The number of Employed for the two Most Recent Fiscal Years, and during the Current Fiscal year up to the date of Publication of the Annual Report, Their average years of

Service, Average ages and Education Levels :

year		2018	2019	2020.3.31
Staff number	Supervisor	29	31	32
	General	132	134	127
	Total	161	165	159
Average ages		36.08	36.08	36.39
Average seniority		5.4	5.4	5.6
Ratio of educational attainment	PhD	0%	0%	0%
	Master's	13.67%	13.33%	13.84%
	University	80.12%	81.21%	81.13%
	High school	6.21%	5.46%	5.03%
	Less than high school	0%	0%	0%

IV. Environmental expenditure information

The company is not the manufacturing, therefore is not applicable to the subject.

V. Labor relations

(I) The implementation status of every employee welfare measures, self-study, training, retirement system, agreements between labor and employee interests maintenance:

1. Employee welfare measures and the implementation status

Our company highly values employee welfare, according to Employees' Welfare Funds Act and established the Organization of Employees' Welfare Committee to conduct employees' welfare matters, followed by regulation of contribute welfare funds according to monthly revenue, salary and sell rejects. In addition, following are the welfares our employee have:

- (1) Bonus system: Bonus system: In addition to the monthly sales bonus, the company will issues half year dividend, year-end bonus and employee bonus depends on state of operation. As for employees with five or more years of employment, the company will issue longevity bonus and paid leave for employee to take time off for family trip or recharge; when employee with ten or more years of employment resign from job, company will issue pension to show appreciation to employee.
- (2) Welfare activities: Provides various kinds of welfare measures, which includes wedding and death subsidy, childbirth subsidy, dragon boat festival/mid-autumn festival/birthday cash gifts, hospital allowance, clubs&activities, year-end party, domestic/foreign travel, blind massage and car purchase allowance for specific position, parking subsidy and promotion of special contract shops on an irregular basis.
- (3) Insurance: According to the law, employees are insured with labor insurance, health insurance and withdraw 6% of labor pension on the first day of employment, and insured all employee with group insurance, includes life insurance, casualty insurance, hospital insurance, cancer insurance and personal injury insurance; additional business travel accident insurance for employee who needs to go on business trip frequently, to increase the assurance of employees' family.

- (4) Educational training: provides perfect new employee orientation and on-the-job training, and holds professional training, supervisor training and employee training annually on a regular basis.
 - (5) Health examination: holds employees' health examination every two years, and offering half-day paid leave for employee to receive examination in the special contract hospital.
 - (6) Stock ownership trust: offers senior employee with preferential shareholding opportunity and bonus issue.
2. Implementation status of further study and training
- Arranging courses by orientation training, assist new employee to understand the positioning and future development of the company. Professional internal training will be hold irregularly, enable employee to receive new information of professional skills and enhance the capability of business promotion and R&D. Moreover, we focus on on-the-job training, each department will arrange suitable educational training lessons depends on the actual needs, and establish training center, e-learning online learning system to offer employee a diversified and convenient learning platform; or depends on the needs of each professional competence course, and participating in lessons held by training institutes to improve employees' professional competencies.
3. Implement state of retirement system
- (1) Our company has established Workers' Retirement Fund Supervisory Committee, and enacted Organic Law of Committees and Regulations for Retirement. In order to guarantee the retirement right of employee in old system, even if the retirement preparation funds has reached over annual safety line, we will still follow the Labor Standard Law to withdraw 2% of labor pension monthly from employees' gross salary to the pension account of Bank of Taiwan, and do not have end of withdrawal plan.
 - (2) From July 1st 1995, the company has enacted pension system according to Labor Pension Statutes, and withdraw 6% of labor pension according to insured salary monthly to employees' personal account of Bureau of Labor Insurance.
 - (3) The company has enacted Regulations for Preferential Retirement on May 11th 2017, which enable employees with 20 or more years of seniority or 15 or more years of seniority and is above 50 years old to actively apply for preferential retirement depends on their career guidance, physical and mental health and family needs.
4. Protocols between labor relations and state of employees' right and interest maintenance:
- (1) The labor relations of our company is harmonious, labor dispute has never happened before. We highly value two-way communication in order to maintain good labor relations; therefore, we do not have any significant labor dispute happened before.
 - (2) Our company has complete regulation of personnel management, which has specify related rights and obligations and welfare measures, and has review the content on a regular basis to protect employees' right.
- (II) Recent years and as of the annual report printing date, suffer losses from labor dispute, and estimated amount and measures for the possibility of happening at present or in the future: NA.

VI. Important contract

At present, supply and marketing contract, technical cooperation contract, engineering contract, long-term loan contract and other critical contracts which will affect shareholders' right and interest are still under effective duration or expiration in recent years.

Contract characterization	Party	Date of contract	Main content	Restrictive covenants
Agency agreement (augmentation of distribution agreement)	Autodesk Asia Pte Ltd.	2020.2.1-2021.1.31	Autodesk agency Contract of related products	NA
Agency agreement	SIEMENS	2019.11.23-2020.11.22	Siemens agency Contract of related products	NA
Agency agreement	Parametric Technology PTC	2019.7.1-2020.6.30	PTC agency Contract of related products	NA

VI. Financial Profile

I. Condensed balance sheet and Statements of Comprehensive income for the Past 5 years, Showing the Name of the Certified Public Accountant and the auditor's Opinion Given Thereby.

(I) Condensed balance sheet-adopt the International Financial Reporting Standards (merge with Financial statements).

Unit: Expressed in thousands of NTD

Year Item		Financial information in the last five years					2020 as of first quarter(review by auditor)
		2015	2016	2017	2018	2019	
current assets		660,420	615,072	579,294	705,407	793,534	804,142
Real estate, plant and equipment		23,471	21,795	20,575	22,791	25,216	25,246
Intangible asset		—	—	—	—	—	—
Other assets		30,402	31,772	32,449	34,952	100,902	96,170
Gross assets		714,293	668,639	632,318	763,150	919,652	925,558
current liabilities	Before distribution	146,594	107,878	101,252	181,353	219,493	284,716
	After distribution	206,434	159,169	123,136	232,644	(Note 1)	(Note 1)
Non-current liabilities		19,580	5,582	905	2,273	38,717	34,790
Total liabilities	Before distribution	166,174	113,460	102,157	183,626	258,210	319,506
	After distribution	226,014	164,751	124,041	234,917	(Note 1)	(Note 1)
Attributed to owner's equity of the Parent Company		—	—	—	—	—	—
Share capital		170,970	170,970	170,970	170,970	170,970	170,970
Additional paid-in capital		68,813	68,813	68,813	68,813	68,813	68,813
retained earnings	Before distribution	294,353	319,209	295,409	346,903	431,213	377,490
	After distribution	234,513	267,918	273,525	295,612	(Note 1)	(Note 1)
Other equity		5,704	(3,813)	(5,031)	(7,162)	(10,930)	(12,482)
Treasury stock		—	—	—	—	—	—
Non-controlling Interests		8,279	—	—	—	1,376	1,261
Total equity	Before distribution	548,119	555,179	530,161	579,524	661,442	606,052
	After distribution	488,279	503,888	508,277	528,233	(Note 1)	(Note 1)

Note1: Earnings of 2019 has not distributed by shareholders' meeting resolution.

Note2: Sales revenue subtraction adjustment according to The Financial Supervisory Commission no. 1060016664 of 2017.06.26, revise the revenue from 2014.10 to 2016.12 and financial statement from Q4 2014 to Q4 2016.

(II) Condensed balance sheet-adopt the International Financial Reporting Standards (merge with Financial statements).

Unit: Expressed in thousands of NTD

Item \ Year	Financial information in the last five years					2020 as of first quarter(review by auditor)
	2015	2016	2017	2018	2019	
R e v e n u e	984,296	869,193	676,317	923,668	1,205,375	306,737
G r o s s P r o f i t	370,377	338,914	237,172	319,599	438,090	117,218
Operating income s t a t e m e n t	109,419	84,550	30,047	91,131	174,178	48,814
Non-operating Income	(2,529)	5,456	2,936	1,954	2,637	642
Pre-Tax Income	106,890	90,006	32,983	93,085	176,815	49,456
N e t I n c o m e	82,874	72,901	25,753	74,245	143,002	40,196
Other comprehensive income(Net Income)	(4,586)	(257)	520	(2,998)	(11,293)	(1,552)
total comprehensive i n c o m e	78,288	72,644	26,273	71,247	131,709	38,644
Net income attributed to owner of the parent company	83,595	75,436	25,753	74,245	143,126	40,311
Net income attributed to non-controlling i n t e r e s t	(721)	(2,535)	—	—	(124)	(115)
Total comprehensive income attributed to owner of the parent c o m p a n y	79,009	75,179	26,273	71,247	131,833	38,759
Total comprehensive income attributed to non-controlling i n t e r e s t	(721)	(2,535)	—	—	(124)	(115)
Earnings Per Share	4.89	4.41	1.51	4.34	8.37	2.36

Note1: Earnings of 2019 has not distributed by shareholders' meeting resolution.

Note2: Sales revenue subtraction adjustment according to The Financial Supervisory Commission no. 1060016664 of 2017.06.26, revise the revenue from 2014.10 to 2016.12 and financial statement from Q4 2014 to Q4 2016.

(III) Condensed balance sheet-adopt the International Financial Reporting Standards (individual financial statements).

Unit: Expressed in thousands of NTD

Year		Financial information in the last five years					2019 as of first quarter
Item		2015	2016	2017	2018	2019	
current assets		454,111	468,887	454,434	569,665	644,735	No compilation of individual financial quarter report
Real estate, plant and equipment		20,260	21,083	20,036	22,231	22,914	
Investments Accounted for Using Equity Method		183,168	136,368	123,570	128,147	146,147	
Other assets		24,178	28,863	25,277	29,258	76,398	
Gross assets		681,717	655,201	623,317	749,301	890,194	
current liabilities	Before distribution	122,297	94,440	92,251	167,504	196,037	
	After distribution	182,137	145,731	114,135	218,795	(Note 2)	
Non-current liabilities		19,580	5,582	905	2,273	34,091	
Total liabilities	Before distribution	141,877	100,022	93,156	169,777	230,128	
	After distribution	201,717	151,313	115,040	221,068	(Note 2)	
Attributed to owner's equity of the Parent Company		-	-	-	-	-	
Share capital		170,970	170,970	170,970	170,970	170,970	
Additional paid-in capital		68,813	68,813	68,813	68,813	68,813	
retained earnings	Before distribution	294,353	319,209	295,409	346,903	431,213	
	After distribution	234,513	267,918	273,525	295,612	(Note 2)	
Other equity		5,704	(3,813)	(5,031)	(7,162)	(10,930)	
Treasury stock		-	-	-	-	-	
Non-controlling Interests		-	-	-	-	-	
Total equity	Before distribution	539,840	555,179	530,161	579,524	660,066	
	After distribution	480,000	503,888	508,277	528,233	(Note 2)	

Note1: Earnings of 2019 has not distributed by shareholders' meeting resolution.

Note2: Sales revenue subtraction adjustment according to The Financial Supervisory Commission no. 1060016664 of 2017.06.26, revise the revenue from 2014.10 to 2016.12 and financial statement from Q4 2014 to Q4 2016.

(IV) Condensed Statement of Comprehensive Income- adopt the International Financial Reporting Standards (individual financial statements).

Unit: Expressed in thousands of NTD

Item \ Year	Financial information in the last five years					2019 as of first quarter
	2015	2016	2017	2018	2019	
Revenue	669,925	781,484	731,581	578,488	1,091,288	No compilation of individual financial quarter report
Gross Profit	308,704	317,131	318,684	223,504	408,493	
Operating income statement	96,415	99,016	109,808	42,052	165,897	
Non-operating Income	15,924	4,208	(17,314)	(8,722)	10,112	
Pre-Tax Income	112,339	103,224	92,494	33,330	176,009	
Net Income	89,490	83,595	75,436	25,753	143,126	
Other comprehensive income(Net Income)	4,846	(4,586)	(257)	520	(11,293)	
total comprehensive income	94,336	79,009	75,179	26,273	131,833	
Earnings per share	5.23	4.89	4.41	1.51	8.37	

Note1: Sales revenue subtraction adjustment according to The Financial Supervisory Commission no. 1060016664 of 2017.06.26, revise the revenue from 2014.10 to 2016.12 and financial statement from Q4 2014 to Q4 2016.

(V). Name of auditors and their review and comment in the last five years

Year	Accountancy firms	Name of auditors	Comment
2015	KPMG TW	Huang, Yon-Hua and Ou, Yao-Jun	Unqualified opinion
2016	KPMG TW	Huang, Yon-Hua and Ou, Yao-Jun	Unqualified opinion
2017	KPMG TW	Wu, Mei-Ping and Huang, Yon-Hua	Unqualified opinion
2018	KPMG TW	Wu, Mei-Ping and Huang, Yon-Hua	Unqualified opinion
2019	KPMG TW	Wu, Mei-Ping and Zhuang, Jun-Wei.	Unqualified opinion

II. Financial analysis of the past 5 Fiscal years

(I) Financial analysis in the last five years-adopt the International Financial Reporting Standards (merge with financial statements)

Analysis Item (Note3)		Financial analysis in the last five years					2020 as of first quarter(review by auditor)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt to total assets	22.69	23.26	16.97	16.16	28.08	34.52
	Long term funding to property, plant and equipment ratio	2,233.93	2,335.30	2,547.28	2,576.72	2623.10	2,400.58
Solvency %	Current ratio	463.66	450.51	570.16	572.13	361.53	282.44
	Quick ratio	411.43	391.67	473.56	498.66	319.28	256.91
	Times interest earned ratio (Note 1)	0	0	0	0	0	0
Operating ability	Average collection turnover(times)	3.49	3.93	3.96	3.59	4.27	4.66
	Average collection days	105	93	92	102	85	78
	Inventory turnover(times)	8.38	9.33	6.39	5.34	11.02	9.59
	Average payables turnover(times)	8.59	9.79	10.62	9.71	7.53	8.81
	Average inventory turnover days	44	39	57	68	33	38
	Property, plant and equipment turnover(times)	37.59	41.74	38.40	31.92	50.22	48.63
	Total assets turnover(times)	1.33	1.41	1.26	1.04	1.43	1.33
Profitability	Return on asset (%)	13.64	11.85	10.54	3.96	17.07	17.44
	Return on equity (%)	17.63	15.38	13.22	4.75	23.05	25.37
	Profit before tax to capital stock (%)	68.97	62.52	52.64	19.29	103.42	115.71
	Profit margin (%)	10.24	8.42	8.39	3.81	11.86	12.98
	Earnings per share (dollars)	5.23	4.89	4.41	1.51	8.37	2.36
Cash flow	Cash flow ratio (%)	86.51	59.52	65.32	56.79	68.84	26.09
	Cash flow adequacy ratio (%)	89.58	94.17	89.83	105.02	131.61	162.84
	Cash flow reinvestment ratio (%)	12.26	3.31	1.88	1.16	14.23	12.33
Leverage	Operating leverage	1.05	1.06	1.07	1.20	1.11	1.12
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00

The variation of each inventory ratio is above 20% in the last two years statement is as follows:

1. Return on asset increased by 60% due to the increase of net profit.
2. Return on Equity increased by 72% due to the increase of net profit.
3. Profit before tax to capital stock increase 90% die to the increase of pre-tax income.
4. Profit margin increase by 48%: due to the increase of net income.
5. Earnings per share increase 93%: due to the increase of net income.
6. Cash flow adequacy ratio increase 47%: due to cash flows from operating activities
7. Cash flow reinvestment ratio increase 33%: due to cash flows from operating activities.

Note1: Our company do not have interest expense from 2015 to 2018, and the interest for 2019 is not derived from common type of debt (i.e. from right-of-use assets) therefore is not applicable to the subject.

Note2: The calculation formula of analysis item is as follow:

1. Financial structure

- (1) Debt to total assets = $\text{total liabilities} / \text{total assets}$.
- (2) Long term funding to real estate, plant and equipment ratio = $(\text{total equity} + \text{non-current liabilities}) / \text{Net property, plant and equipment}$.

2. Solvency

- (1) Current ratio = $\text{current assets} / \text{current liabilities}$.
- (2) Quick ratio = $(\text{current assets} - \text{inventory} - \text{prepaid expense}) / \text{current liabilities}$.
- (3) Times interest earned ratio = $(\text{net income before tax} + \text{interest expense}) / \text{interest expense}$

3. Operating ability

- (1) Receivable (include receivable and bill receivable resulted from business operation) turnover = $\text{net sales} / \text{average balance of receivable (including receivable and bill receivable resulted from business operation)}$
- (2) Average collection days = $365 / \text{receivable turnover}$
- (3) Inventory turnover = $\text{cost of goods sold} / \text{average inventory}$
- (4) Payables (including payable and bill payable resulted from business operation) = $\text{operating costs} / \text{average balance of payables (including payables and bill payable resulted from business operation)}$
- (5) Average days in sales = $365 / \text{inventory turnover}$
- (6) Property, plant and equipment turnover = $\text{net sales} / \text{average net property, plant and equipment}$.
- (7) Total assets turnover = $\text{net sales} / \text{average total assets}$

4. Profitability

- (1) Return on asset = $[\text{net income} + \text{interest expense} \times (1 - \text{tax rate})] / \text{average total assets}$.
- (2) Return on equity = $\text{net income} / \text{average total equity}$
- (3) Profit margin = $\text{net income} / \text{net sales}$
- (4) Earnings per share = $(\text{Consolidated net income attributed to stockholders of the company} - \text{preference dividends}) / \text{weighted average stock shares issued}$ °

5. Cash flow

- (1) Cash flow ratio = $\text{net cash flow from operating activity} / \text{current liabilities}$
- (2) Net cash flow adequacy ratio = $\text{net cash flow from operating activities within five years} / (\text{capital expenditure} + \text{inventory increase} + \text{cash dividend}) \text{ within five years}$
- (3) Cash flow reinvestment ratio = $(\text{net cash flow from operating activities} - \text{cash dividend}) / (\text{gross property, plant and equipment} + \text{long-term investment} + \text{other non-current assets} + \text{working capital})$ °

6. Leverage

- (1) Operating leverage = $(\text{net operating income} - \text{operating variable cost and expense}) / \text{operating profit}$
- (2) Financial leverage = $\text{operating profit} / (\text{operating profit} - \text{interest expense})$

(II) Financial analysis -adopt the International Financial Reporting Standards (individual financial statements)

AnalysisItem (Note2)		Financial analysis in the last five years					2020 as of first quarter(review by auditor)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt to total assets	20.60	20.81	15.27	14.95	25.85	No compilation of individual financial quarter report
	Long term funding to property, plant and equipment ratio	2,406.09	2,664.56	2,633.30	2,646.04	2,880.62	
Solvency %	Current ratio	388.22	371.32	496.49	492.61	328.88	
	Quick ratio	348.70	332.80	419.02	419.65	285.13	
	Times interest earned ratio (Note 1)	-	-	-	-	--	
Operating ability	Average collection turnover(times)	3.41	4.10	4.22	3.68	4.36	
	Average collection days	107	89	86	99	84	
	Inventory turnover(times)	10.34	10.29	7.07	5.15	10.57	
	Average payables turnover(times)	7.68	9.61	11.12	9.19	7.60	
	Average inventory turnover days	35	35	52	71	35	
	Property, plant and equipment turnover(times)	30.56	36.99	35.39	28.14	48.35	
	Total assets turnover(times)	1.05	1.16	1.09	0.90	1.33	
Profitability	Return on asset (%)	14.00	12.40	11.29	4.03	17.53	
	Return on equity (%)	17.63	15.64	13.78	4.75	23.09	
	Profit before tax to capital stock (%)	65.71	60.38	54.10	19.49	102.95	
	Profit margin (%)	13.36	10.70	10.31	4.45	13.12	
	Earnings per share (dollars)	5.23	4.89	4.41	1.51	8.37	
Cash flow	Cash flow ratio (%)	117.11	60.46	86.47	36.65	67.62	
	Cash flow adequacy ratio (%)	74.30	76.21	81.91	96.46	109.25	
	Cash flow reinvestment ratio (%)	15.94	1.45	5.13	(4.25)	14.88	
Leverage	Operating leverage	1.02	1.05	1.04	1.11	1.10	
	Financial leverage	1	1	1	1	1	

The variation of each inventory ratio is above 20% in the last two years statement is as follows:

1. Property, plant and equipment turnover increase 27%: due to the increase of sales revenue.
2. Return on asset increase 66%: due to the increase of net income.
3. Return on equity increase 76%: due to the increase of net income.
4. Profit before tax to capital stock increase 90%: due to the increase of pre-tax income.
5. Profit margin increase 46%: due to the increase of net income.
6. Earnings per share increase 93%: due to the increase of net income.
7. Cash flow ratio increase 40%: due to cash flows from operating activities.

Note1: Our company do not have interest expense from 2015 to 2018, and the interest for 2019 is not derived from common type of debt (i.e. from right-of-use assets), therefore is not applicable to the subject.

Note2: The calculation formula of analysis item is as follow:

1. Financial structure

(1) Debt to total assets=total liabilities/total assets.

(2) Long term funding to real estat, plant and equipment ratio= (total equity+non-current liabilities) / Net property, plant and equipment.

2. Solvency

(1)Current ratio=current assets/current liabilities.

(2)Quick ratio=(current assets-inventory-prepaid expense)/current liabilities.

(3) Times interest earned ratio= (net income before tax + interest expense) / interest expense

3. Operating ability

(1)Receivable(include receivable and bill receivable resulted from business operation) turnover=net sales/average balance of receivable (including receivable and bill receivable resulted from business operation)

(2)Average collection days=365/receivable turnover

(3)Inventory turnover=cost of goods sold/average inventory

(4)Payables (including payable and bill payable resulted from business operation)=operating costs/average balance of payables (including payables and bill payable resulted from business operation)

(5)Average days in sales=365/inventory turnover

(6)Property, plant and equipment turnover=net sales/average net property, plant and equipment.

(7)Total assets turnover=net sales/average total assets

4. Profitability

(1)Return on asset=[net income+interest expense*(1-tax rate)] /average total assets.

(2)Return on equity=net income/average total equity

(3)Profit margin= net income/net sales

(4)Earnings per share= (Consolidated net income attributed to stockholders of the company – preference dividends) / weighted average stock shares issued °

5. Cash flow

(1)Cash flow ratio= net cash flow from operating activity/current liabilities

(2)Net cash flow adequacy ratio=net cash flow from operating activities within five years (capitalexpenditure+inventory increase +cash dividend) within five years

(3)Cash flow reinvestment ratio=(net cash flow from operating activities – cash dividend)/(gross property, plant and equipment+long-term investment+other non-current assets+working capital) °

6. Leverage

(1)Operating leverage=(net operating income-operating variable cost and expense)/operating profit

(2)Financial leverage=operating profit/(operating profit-interest expense)

III. Supervisors' report on the Most Recent years' Financial Statement

Otsuka Information Technology Ltd. Supervisor review and comment report

Hereby

Board of directors have submitted the 2019 individual financial statements with consolidated financial statements, and business report with disposition of net income by certified public accountants from KPMG TW's CPAs Wu, Mei-Ping and Zhuang, Jun-Wei.. After audited by supervisor, all the forms were compiled according to the law and no error has been found. Therefore, attached with the report according to Article 219 of Taiwan Company Law for inspection.

2020 Board of directors

TAMEHIRO AKIO

Supervisor : Huang, Xiang-Min

Liu, Cheng-Ho

March 18, 2020

IV. Latest Consolidated Combined Financial Statement Report Audited and Certified by CPAs :

2019 consolidated financial statement, please refer to page 115 to 169 of the annual report.

V. Latest Consolidated Individual Financial Statement Report Audited and Certified by CPAs :

2019 individual financial statement, please refer to page 170 to 220 of the annual report.

VI. Financial Difficulties Faced and its Effect on the Company's Financial Status If the Company or its affiliates have Experienced Financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of Publication of the Annual Report : None

VII. Review and analysis of financial status and business results and risk issues

I. Financial status

(I) Comparative analysis chart of financial status

Unit: Expressed in thousands of NTD

Item \ Year	2019	2018	Difference	
			Amount	%
Current assets	793,534	705,407	88,127	12.49%
Fixed assets	25,216	22,791	2,425	10.64%
Other assets	100,902	34,952	65,950	188.69%
Total assets	919,652	763,150	156,502	20.51%
Current liabilities	219,493	181,353	38,140	21.03%
Other liabilities	38,717	2,273	36,444	1603.34%
Total liabilities	258,210	183,626	74,584	40.62%
Share capital	170,970	170,970	0	0.00%
Capital surplus	68,813	68,813	0	0.00%
Retained earnings	431,213	346,903	84,310	24.30%
Cumulative translation adjustment	(10,930)	(7,162)	(3,768)	52.61%
Non-control equity	1,376	0	1,376	100.00%
Total stockholders' equity	661,462	579,524	81,918	14.14%

- (II) The main reasons, impact and solution for future of significant change toward company's assets, liabilities and stockholders' equity over past two years (of which pre and post variation reach above 20%, and the amount reach 10 million NTD) is state as below:

To follow the new criteria of IFR 16 leases, the leased assets of the Company increased to NT 42,641,000 dollars, and the amount of lease liability increased to NT 40,855,000 dollars, which equals to an increase of 20.51% and 40.62% in total asset and liability respectively; the profit gain in 2019 caused the income tax increased to NT 16,310,000 dollar, and the current liability increased by 21.03%.

To continuously monitor the operational efficiency of all future assets in order to ensure the asset quality of the Company.

II. Financial performance

(I) Comparative analysis chart of financial performance

Unit: Expressed in thousands of NTD

Item \ Year	2019	2018	Increase(decrease) amount	Increase and decrease ratio%
Net operating revenue	1,205,375	923,668	281,707	30.50%
Operating cost	767,285	604,069	163,216	27.02%
Gross profit	438,090	319,599	118,491	37.07%
Operating expenses	263,912	228,468	35,444	15.51%
Operating profit	174,178	91,131	83,047	91.13%
Non-operating revenue and expense	2,637	1,954	683	34.95%
Pre-tax income	176,815	93,085	83,730	89.95%
Tax income (expense)	(33,813)	(18,840)	(14,973)	79.47%
Net income	143,002	74,245	68,757	92.61%

(II) Increase and decrease ratio analysis over last two years:

1. Net operating revenue increase mainly resulted from the increase of order amount.
2. Operating cost increase is mainly due to the increase of net operating revenue in 2019.
3. Gross profit increase is mainly due to the increase of net operating revenue in 2019.
4. Operating expense increase is due to the increase of selling and management expenses.
5. Operating profit increase is due to the increase of order amount.
6. Non-operating revenue and interest increase is due to the increase of foreign exchange gain.
7. Pre-tax income increase is due to the increase of operating profit.
8. Income tax expense increase is due to the increase of pre-tax net profit.

(III) Expected sale amount and its basis, the possible impact and solution for future financial business of the company

Our company will still continue to develop in the professional drawing software industry in the future, our business unit has sales forecast based on existing products to offer customer with complete and various solution and consultation. We are expecting to invest in professional business service and under the support of OEM proxy authorization, it is estimated that the sales volume can continue to grow in 2020; moreover, under the growth of business, the financial structure of the company will maintain a long-term stable development.

III. Cash Flow

(I) Liquidity analysis over last two years:

item	Cash inflows(outflows)		Increase(decrease) variation	
	2019	2018	amount	%
Operating activities	151,096	85,103	65,993	77.54%
Investment activities	(40,034)	(14,424)	(25,610)	177.55%
Financing activities	(61,638)	(21,884)	(39,754)	181.66%
Exchange influence	(5,247)	(3,221)	(2,026)	62.90%
Variation of increase/decrease proportion statement:				
1. Cash flows from operating activities is 151,096 thousand dollars, which increased 65,993 thousand dollars compare to last period, this is due to the increase of pre tax income of this period.				
2. Cash flows from investment activities is 40,034 thousand dollars, which increased 25,610 thousand dollars compare to last period, this is due to the increase of investing financial assets of this period.				
3. Cash flows from financing activities is 61,638 thousand dollars, which decreased 39,754 thousand dollars compare to last period, this is due to the issue of cash dividends of this period.				
4. Exchange influence is affected by changes in foreign exchange rate of RMB.				

(II)The improvement plan of liquidity shortages: do not have the problem on current period.

(III) Cash liquidity analysis of next year

Unit: Expressed in thousands of NTD

cash balance at beginning of year	Net cash flows from operating activities throughout the year	Net cash flows from other activities throughout the year	Cash surplus(shortfall) amount	Measures of remediation for cash shortfall	
				Investment plan	Financial plan
409,516	91,975	(96,255)	405,236	—	—

1. Cash flows analysis of this year

(1) It is predicted that the net cash flows from operating activities will increase this year, this is due to the estimated profit of 2020, so the cash from operating activities will increase in 2020.

(2) It is predicted that the cash will outflow from other activities this year, this is due to the estimated procurement of fixed assets and issue cash dividends in 2020.

2. Measures of remediation for estimated cash shortfall and liquidity analysis: NA.

IV. Impact of major capital expenditure on the financial status during the most recent fiscal year: No important capital expenditure in 2020.

V. Investment policy for the most recent fiscal year, the main reasons for the profits or losses, improvement plans, and investment plans for the coming year :

(I) Investment policy

The company emphasize strategic investment, long-term hold, focus on carrying out the economic situation of invested business at anytime, and analyze investment

effectiveness for the benefit of follow-up assessment on post investment management for decision authorities.

(II) Reinvestment profit or loss situation

2019.12. 31 Unit: Expressed in thousands of NTD

Reinvestment business	amount	Main reason of profit or loss			Improvement plan
		Current profit and loss	Investment interest recognition of current period	statement	
Otsuka Information Technology Limited	129,517	10,321	10,321	Third place investment company Taiwan	Reinforce niche product sales with high added value, continue developing related business.
Otsuka Software Trading (DongGuan) Limited.	48,160	8,341	8,341		
OITC Information Technology(shanghai)Limited.	78,260	1,980	1,980		
To Gather Corporation	13,500	(1,234)	(-1,110)	Initial establishment	Enhance sales channels and introduce other branches of products

(III) Investment plan for the coming year:

The operating content of areas in mainland China originally have graphics systems integration consultation, which offers customer with a more integrated service, distinguish market positioning and competitive edge from competitors. The company has been developing area of operating scope which includes East, South and Central China. With the locations in Suzhou and Shanghai merged in January, 2019, the Company anticipates in improving operating efficiency. Also, the Company reinvested in the catering business of To Gather Corporation with a view to build closer connection with consumers and expand the customer group through department stores and other marketing channels.

VI. Analysis and assessment of risk issues during the most recent fiscal year, up to the date of publication of the annual report.

(I) The impact and future measures of company's profit and loss from interest rate, changes in foreign exchange rates and inflation

1. Risk of interest rate variation

Unit: Expressed in thousands of NTD

Item \ Year	2019	2020 as of 31st March
Interest income	1,805	465
Interest expense	805	209
Net operating revenue	1,205,375	306,737
(Interest expense- interest income)/Net operating revenue	(0.08%)	(0.08%)

Policy and solution:

(1) In the aspect of interest rate, our company still take domestic or foreign economic

research institution and bank research report for references, in the convenience of grasping future trend of interest rate, and keep a unimpeded contact access with correspondent bank to fight for better loan conditions.

- (2) Solid financial planning of the company, utilize every financial instrument effectively to decrease the risk of interest rate variation.
- (3) In the future, our company will still based on conservatism principle, take safe and reasonable revenue as consideration, and the fund of the company will be deposited in financial institutions with good credits.

2. Risk of changes in foreign exchange rates

Unit: Expressed in thousands of NTD

Item \ Year	2019	2020 as of 31st March
Net exchange gains or losses	(24)	(35)
Net operating revenue	1,205,375	306,737
Net exchange gains or losses/ net operating revenue	0.00%	0.01%

Policy and solution:

- (1) Our company collect change in exchange rate information at anytime to judge its situation, and to take hedging risk operation, so we can avoid the risk of change in exchange rate in order to decrease its adverse Impact on the company's income(loss).
- (2) The company's receivable and partial payables are mainly denominated in NTD, therefore the exchange rate risk affected by exchange rate fluctuation is relatively low. However, as for direct imports of ADOBE, due to the payment is denominated in USD, we purchase partial inventory to avoid the risk of foreign currency fluctuation.

3. Inflation risk

The monetary policy of every economic power are well-controlled currently, and there's no inflation issue of domestic cost of living. Our company will maintain good interactive relationship with suppliers and customers in the future, which enable the sales price to adjust flexibly when fluctuating with the market, by that we can lower the impact of inflation variation.

(II) Main reasons and future measures of high risk, high leverage investment, lending of capital to others, endorsements and guarantees and policy, profit or loss of derivative trading:

1. High risk and high leverage investment status

Our company do not have engaged in any high risk, high leverage investment.

2. Lending of capital to others and endorsements and guarantees status

The company has enacted "The procedures for acquisition or disposal of assets", "The procedures for lending of capital to others", "The procedures for endorsements and guarantees", and have passed the resolution by the shareholders' meeting, all transactions are handled in accordance with related regulations. The Company's endorsement for its subsidiary To Gather Corporation with an amount of NT 7.83 million dollars in July, 2019, was conducted according to relevant operational procedures, and the endorsement was terminated in the end of July, 2019. Our

company do not have endorsements and guarantees situation from 2012. As for lending of capital to others, we not only went through careful assessment while executing, having regular report and monthly control, but also rest on the regulation of “The procedures for lending of capital to others” enacted by the company.

3. Engaged in derivative trading status

Our company do not have engaged in derivative trading.

(III) Future R&D plan and estimated investment in R&D expense

1. Refine and strengthen the management application of CRM system function, view feedbacks of customer sales information as assets and have the most effective sharing. Collect first-line consultant’s feedback through customer’s reflection of problem and needs, and keep optimizing and simplifying every operational interface and function.

2. With the experience in CAD customized program project development for many years, Otsuka invest in the product development of Autodesk Inventor tool 3rd Party, and strengthen the current system function through API (Application Programming Interface) provided by CAD system. The 2.0 version launched in 2017 has added new features that was what customer expected, which will increase the efficiency of 3D design greatly.

We will continue focusing on the R&D of PDM product series in 2020, the estimated R&D cost of manpower and equipment is around 6,193 thousands of NTD.

(IV) Influence and measures of domestic and foreign important policy and variation of law toward company financial business

The company pay attention to domestic and foreign policy development trend and variation regulation, in order to seize the market environment variation. Therefore, there is no significant impact of domestic and foreign important policy, variation regulation and industrial change to financial business of the company in recent years as of the annual report printing date.

(V) Effect on the company’s financial operations of developments in science and technology as well as industrial change, and measures to be taken in response:

The company is mainly agent for drawing software used by manufacturing, our core competitiveness is solid sales, technical team and complete after sales service and consultation. The progress of 3D software technology or improvement of hardware specification can both increase the possibility of invested in higher R&D drawing software system by clients. Our company keep an eye on the change of technology and needs at anytime, in order to grasp industrial dynamics and market information. Therefore, the change of technology and industrial variation do not have significant impact on financial business of our company.

(VI) Effect on the company’s crisis management of changes in the company’s corporate image, and measures to be taken in response:

Since the beginning, the company has always live up to its name, and gain recognition from customer by our positive and active service attitude, and comply with the law; therefore, there is no impact on the image of our company as of now.

(VII) Expected benefits and possible risks associated with any merger and acquisitions, and mitigation measures being or to be taken:

The company did not conduct any M&A activity in recent years as of the date of report publication. However, in order to energize our company and grow actively, we will not exclude the M&A activity in the future, and will assess the procedure cautiously, so we can avoid possible risks.

(VIII) Expected benefits and possible risks associated with any plant expansion, and mitigation measures being or to be taken:

The company is not manufacturing, and has not expanded its plant in recent years as of the date of report publication.

(IX) Risks associated with any consolidation of sales or purchasing operations, and mitigation measures being or to be taken:

1. Risks associated with sales and contingency measures:

(1) Although we are concentrating on purchasing the agent product 3D graphic software, our company have maintain good relationship with supplier and had enacted supply contract, with the characteristic of the product, we need a complete sales support team who has industrial experience to provide direct selling and added value service, which cannot be replaced by other domestic companies.

(2) The company is a governance system company with complete risk management culture and combined current operation, with a more strict and precise quantitative model to focus on the risk of purchasing and have a more effective evaluation. Our product manager will have timely evaluation according to Measures of Risk Management, and provide related operation as accordance of management to managerial levels.

(3) Our company actively looking for other agency for niche products, to reinforce and widen the purchasing product line: in addition, the self-R&D product of HyperPDM can have related cooperation with main agent products, and can improve the integrated effectiveness of suppliers' products to increase the customer stickiness and the effectiveness of customer's sales management, which should deepen the cooperative relationship with main suppliers. With the comprehensive effects, there shall not have any risk of interrupting purchase.

2. Risk associated with sales and contingency measures:

The main customer of our company is end users, which is quite scatter. In 2019, customer with direct transaction is around 2,000, among which the sales proportion of biggest client is merely 3.84%; therefore, we do not have the risk of sales concentration.

(X) Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than a 10 percent stake in the company has been transferred or has otherwise changed hands, and mitigation measures being or to be taken:

1. The main shareholder Otsuka Corporation of our company, which set up joint venture with Aurora Corporation and established the company in 1997, Otsuka obtained 100% of equity from Aurora Corporation in 2001 and have great confidence toward the long-term prospect and operation of the company. Because of the consideration of public offering and listed company plan, and in the hope of complete operation and sustainability of the company, Otsuka made the decision of stock dispersion in 2006. In the future, stock transfer of big shareholder must take the corporate image from the

public into consideration as prerequisite, and have full discussion with board of directors and operating team before reinvestment and transfer; therefore, there shall not have matters with significant impact to the company.

2. In order to have a more complete operating management of the company, conform with the policy suggestions of the authority, and implement the spirit of governance in our company, we introduced independent directors system in 2006, which enable the board of directors to have a more effective operation and independence, by that, it will have positive benefit to the company.

- (XI) Effect upon and risk to company associated with any change in governance personnel or top management, and mitigation measures being or to be taken:

The equity of our company is concentrating on Otsuka and our employee. Since the establishment of Otsuka, its operating levels always has positive support to the development of our company, and recognize and trust the operating capability of Taiwanese executives; moreover, all the executives of the company have strong sense of mission, and view the operating of the company as their life position. Our employee have been concentrating on their job and agreeing with the development of the company. In the future, our company will continue to upholding the steady operating idea and good managing behavior, and set the stability of operating and profit of the company as our primary goal, in order to establish the long-term reliable image of our company to shareholders. To sum up, our company shall not have the risk of mass equity transfer or replacement which leads to the change of management right.

- (XII) Litigious and non-litigious matters, should list the company and directors, supervisors, general managers, substantial principals, shareholder with more than 10% of shareholding and major lawsuit, non-contentious cases or administrative litigation that have been determined or are included in the lawsuit of affiliate companies, non-litigation or administrative litigation results may have a significant effect on the company's shareholders' equity or securities price, commencement of litigation, main party involved and up to the date of publication of the annual report: None

- (XIII) Other important risk and measures: None.

1. While advanced development of Internet has changed the operation model of corporates, it also gives rise to issues like cyber-crime and information security. It is urgent the companies should take measures to keep confidentiality of internal information. The company has been taking necessary measures to ensure proper corporate governance, lower the risk of operation and information security, and provide premium service for the clients. The management of computer room space as well as the Internet has been upgraded, and the information security system has been strengthened to protect important information asset for sustainable operation.
2. The transformation of new technology and changes in business model have brought new types of threats to information security, including:
 - (1) The scam gang would make use of phishing mails to hoax employees of the company into fake remittance or transaction.
 - (2) Criminal group may lure employees into a hoax by sending malicious links through

e-mail. Text message, social-network, or online messengers.

(3) Hackers may impede proper function of the Internet by launching requests to transmit large mass of data.

(4) The employees duplicate confidential information and save the file to portable storage device, which may cause information leakage for the data was lost, stolen or sold.

3. The Company is facing multiple threats to information security. To minimize the possibility and the impact of such risk for sustainable operation, the Company identifies and manages the high risk matters through constant risk evaluation and information security review.

4. The Company has also introduced the following protective measures for threat mitigation and risk management:

(1) The Company organizes drills for defense of social engineering attacks; meanwhile, it offers educational training regarding information security to ensure email security awareness.

(2) The anti-virus software has been installed in the server and personal computers to prevent attacks of viruses and malwares.

(3) Monitoring software has been installed at the users' end, and the management system for VPN of external net connection has been established.

(4) Back up of important data can be saved through NAS regularly.

(5) The hardware firewall for Internet has been established to monitor the stream flow and use of the Internet.

(6) The host computer are under proper management, backup of data has been conducted regularly, and the drill for restoring data has been held annually.

(7) A system for checking, tracing, and managing CRM has been established.

(8) Internal auditing has been implemented regularly to improve the operation of information security system.

VII. Other important matters: None.

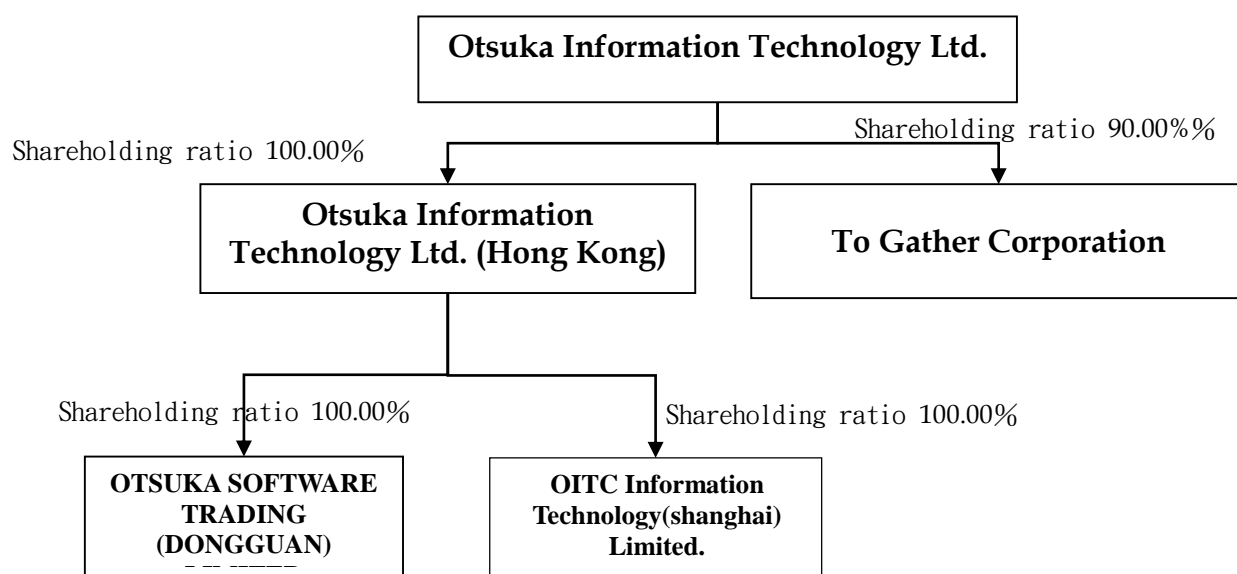
VIII. Special Notes

I. Information about the company's affiliates

(I) Consolidated business report of affiliate companies

1. Affiliates overview

(1) Organization chart of affiliate companies



(2) Basic information of affiliate companies

2019,12,31 Unit: Expressed in thousands of NTD

Name of company	Date of incorporation	Address	Paid-in capital	Main service or production items
Otsuka information Techonlogy Ltd.	1997.08.30	Room 905,9/F., Wing Kwok Centre, No. 182 Woosung Street, Jordan, Kowloon, Hong Kong	129,517	Holding company
OTSUKA SOFTWARE TRADING (DONGGUAN) LIMITED.	1997.11.26	Room 1903, Block 4, Diwang Plaza, Changqing South Road 303, Changan Town, Dongguan City, Guangdong, China	48,160	Software trading and consultancy
OTSUKA information technology Corp (SUZHOU)LIMITED	1999.06.10	200336 Room 317, Block B, Far East International, 317 Xianxia Road, Changning District, Shanghai	78,260	
To Gather Corporation	2019.07.16	6F., NO. 68, SEC. 2, XIANMIN BLVD., BANQIAO DIST., NEW TAIPEI CITY 22065, TAIWAN (R.O.C.)	15,000	Catering service industry

(3) Shareholders presumed to have control and subordinate relationship with the same information: None

(4) The overall relationship between business enterprises covered by the industry the

company and the overall relationship between business covers holding company, software trading, consultancy, and catering service.

(5) Relationship between the directors, supervisors and general manager of the enterprise

Company name	Title	Name or representative	Shares owned	
			Capital contribution	Percentage%
Otsuka Information Techonlogy Limited.	Director and general manager	Otsuka Information Techonlogy Limited. Representative: Kuo, Yi-Lung	32,760,000 股	100
OTSUKA SOFTWARE TRADING (DONGGUAN) LIMITED.			USD 1,600 thousand dollars(Note1)	100
OITC Information Technology(shanghai)Limited.			USD 1,000 thousand dollars(Note1)	100
To Gather Corporation			1,350,000 shares	90

Note1 : Non shareholding system, expressed in capital

Note2 : Completed the merger to OITC Information Technology(shanghai)Limited.in January, 2019

2. Operation status of affiliate companies

Financial status and operating result of affiliate companies

2019.12.31 ; Unit: Expressed in thousands of NTD

Company name	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating interest	Current income (After tax)	Earning per share
Otsuka Information Techonlogy Limited.	129,517	155,307	21,549	133,758	0	0	10,321	(Note1)
OTSUKA SOFTWARE TRADING (DONGGUAN) LIMITED.	48,160	84,071	10,046	74,025	65,111	7,884	8,341	
OITC Information Technology(shanghai) Limited.	78,260	74,732	15,007	59,725	63,178	1,626	1,980	
To Gather Corporation	15,000	20,299	6,533	13,766	186	(1,229)	(1,234)	-0.82

Note1: Non shareholding system, expressed in capital

(II) Consolidated financial statement of affiliate companies:

In connection with the Consolidated Financial Statements of Affiliated Enterprises, we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates are the same as those required to be included in the Consolidated Financial Statements of the company, and its subsidiaries (the "Consolidated FS of the Group") in accordance with International Financial Reporting Standard 10, as well as that, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, our company does not prepare a separate set of Consolidated FS of Affiliates.

(III) Retional report: The company is not belong to The Company Act Affiliate Companies, therefore do not need to compile relational report of Consolidated Business Report of affiliate companies, Relational Business Consolidated Financial Statements and Retional Report Regulation.

- II. Transaction about the company's private placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report: None.
- III. Holding or disposal of shares in the company by the company's subsidiaries during the most recent fiscal year or during the current fiscal year up to the date of annual report.
- IV. Other necessary supplementary notes: None.
- IX. Matters during the most recent fiscal year and as of the date of publication of the annual report which have a substantial impact on owner's equity as stipulated in item2, paragraph 2 of article 36 of the securities exchange law: None.

Independent Auditors' Report

To the Board of Directors of OTSUKA INFORMATION TECHNOLOGY CORP.:

Opinion

We have audited the consolidated financial statements of OTSUKA INFORMATION TECHNOLOGY 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 ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed 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 Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 of the current period. 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. In our professional judgments, key audit matters to be communicated in the independent auditors' report are listed below:

1. Evaluation of inventories

Please refer to Note 4(h) "Inventories" , Note 5(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" , and Note 6(e) "Inventories" of the consolidated financial statements.

Description of key audit matter:

The Group's inventories are measured at the lower of cost and net realizable value. Due to the rapid transformation of technology, the products may be out of date in the market, and there is a risk that the cost of the inventory would be higher than its net realizable value. The condition of inventories to be sold will influence the result of evaluation, so consistent attention are required. In addition, the inventories are the significant account in the consolidated financial statement. Therefore, evaluation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the allowance and obsolescence of the inventories of the Group and inspecting whether existing inventory policies are applied; sampling the individual inventory items and examining the sources of the net realizable value of the samples to access whether the net realizable value are reasonable; examining the accuracy of aging of inventories by sampling and analyzing the changes of the aging of inventories; inspecting the reasonableness for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are appropriate.

2. Impairment of accounts receivable

Please refer to Note 4(g) "Financial Instruments", Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty", and Note 6(d) "Notes and accounts receivable" of the consolidated financial statements.

Description of key audit matter:

The Group's accounts receivable are derived from sales of software and rendering of service, the balance constitutes 31% of the consolidated assets as of December 31, 2019. Due to the payment terms of the major customers are long and the receivables are not collected totally up to the date of the auditors' report. The recoverability of accounts receivable requires subjective judgments of the management. Therefore, impairment assessment of receivables is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: testing internal control process of accounts receivable; understanding the policies of evaluating the allowance of accounts receivable of the Group, and inspecting whether existing receivables policies are applied; asking the management whether there are any debtors with financial difficulties, and examining the accuracy of aging of receivables by sampling; inspecting the reasonableness of impairment loss of receivables recognized by the management in the past, and compare it to the current year to ensure that the measurements and assumptions are appropriate; inspecting collection of receivables in the subsequent period to assess the reasonability of impairment loss measurement.

Other Matter

Otsuka Information Technology Corp. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 16, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (note 6(a))	\$	409,516	44	365,339
1137	Financial assets at amortized cost—current (note 6(b))		10,000	1	-
1170	Notes and accounts receivable, net (notes 6(d), (n) and 7)		281,280	31	283,225
1200	Other receivables (note 6(c))		-	-	5,041
1300	Inventories (note 6(e))		89,850	10	49,367
1410	Prepaid expense and other current assets		2,888	-	2,435
			793,534	86	705,407
Non-current assets:					
1535	Financial assets at amortized cost—non-current (note 6(b))		20,000	2	10,000
1600	Property, plant and equipment (note 6(f))		25,216	3	22,791
1755	Right-of-use assets (note 6(g))		42,641	5	-
1990	Other non-current assets (notes 6(a), (d), (j), (k), (n) and 8)		38,261	4	24,952
			126,118	14	57,743
			919,652	100	763,150
Total assets					
Liabilities and Equity					
Liabilities:					
Current liabilities:					
	Notes and accounts payable		97,189	10	106,577
	Salaries payable		48,967	5	41,716
	Accrued expenses and other payables		53,236	6	28,361
	Current lease liabilities (note 6(h))		14,500	2	-
	Other current liabilities		5,601	1	4,699
			219,493	24	181,353
Non-current liabilities:					
	Deferred tax liabilities (note 6(k))		4,651	-	2,273
	Non-current lease liabilities (note 6(h))		28,628	3	-
	Other non-current liabilities (note 6(j))		5,438	1	-
			38,717	4	2,273
			258,210	28	183,626
Equity attributable to owners of parent:					
	Ordinary shares (note 6(l))		170,970	19	170,970
	Capital surplus (note 6(l))		68,813	7	68,813
	Legal reserve (note 6(l))		80,470	9	73,045
	Special reserve (note 6(l))		7,162	1	5,031
	Unappropriated retained earnings (note 6(l))		343,581	37	268,827
	Other equity interest		(10,930)	(1)	(7,162)
			660,066	72	579,524
	Non-controlling interests		1,376	-	-
			661,442	72	579,524
			919,652	100	763,150
Total liabilities and equity					

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(n) and 7)	\$ 1,205,375	100	923,668	100
5000	Operating costs (note 6(e))	767,285	64	604,069	65
	Gross profit	438,090	36	319,599	35
	Operating expenses: (notes 6(d), (h), (i), (j), (o) and 12)				
6100	Selling expenses	215,193	18	185,977	20
6200	Administrative expenses	40,710	3	35,028	4
6300	Research and development expenses	6,232	1	7,023	1
6450	Expected credit loss	1,777	-	440	-
	Total operating expenses	263,912	22	228,468	25
	Net operating income	174,178	14	91,131	10
	Non-operating income and expenses:				
7100	Interest income	1,805	1	1,751	-
7020	Other gains and losses (notes 6 (c) and (p))	1,637	-	203	-
7510	Interest expense (note 6(h))	(805)	-	-	-
	Total non-operating income and expenses	2,637	1	1,954	-
	Profit before tax	176,815	15	93,085	10
7950	Less: Income tax expenses (note 6(k))	33,813	3	18,840	2
	Profit	143,002	12	74,245	8
8300	Other comprehensive income:				
8310	Items that will not be reclassified to profit or loss				
8311	Remeasurement of defined benefit plans (note 6(j))	(7,525)	(1)	(867)	-
8349	Income tax related to items that will not be reclassified to profit or loss	-	-	-	-
		(7,525)	(1)	(867)	-
8360	Items that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign operation' s financial statements	(4,711)	-	(2,930)	-
8399	Income tax related to items that will be reclassified to profit or loss (note 6(k))	943	-	799	-
		(3,768)	-	(2,131)	-
8300	Other comprehensive income	(11,293)	(1)	(2,998)	-
8500	Total comprehensive income	\$ 131,709	11	71,247	8
	Profit attributable to:				
8610	Owners of parent	\$ 143,126	12	74,245	8
8620	Non-controlling interest	(124)	-	-	-
		\$ 143,002	12	74,245	8
	Comprehensive income attributable to:				
8710	Owners of parent	\$ 131,833	11	71,247	8
8720	Non-controlling interest	(124)	-	-	-
		\$ 131,709	11	71,247	8
	Earnings per share (NT dollars) (note 6(m))				
	Basic earnings per share	\$ 8.37		4.34	
	Diluted earnings per share	\$ 8.31		4.31	

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OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent							
	Retained earnings				Other equity		Non-controlling interests	Total equity
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements		
Ordinary shares								
\$ 170,970	68,813	70,470	3,813	221,126	74,245	(5,031)	-	530,161
-	-	-	-	(867)	(2,131)	(2,131)	-	74,245
-	-	-	-	73,378	(2,131)	(2,131)	-	(2,998)
-	-	-	-	-	-	-	-	71,247
-	-	2,575	-	(2,575)	-	-	-	-
-	-	-	1,218	(1,218)	-	-	-	-
-	-	-	-	(21,884)	-	-	-	(21,884)
170,970	68,813	73,045	5,031	268,827	143,126	(7,162)	-	579,524
-	-	-	-	143,126	-	-	(124)	143,002
-	-	-	-	(7,525)	(3,768)	(3,768)	-	(11,293)
-	-	-	-	135,601	(3,768)	(3,768)	(124)	131,709
-	-	7,425	-	(7,425)	-	-	-	-
-	-	-	2,131	(2,131)	-	-	-	-
-	-	-	-	(51,291)	-	-	-	(51,291)
-	-	-	-	-	-	-	1,500	1,500
\$ 170,970	68,813	80,470	7,162	343,581	(10,930)	660,066	1,376	661,442

Balance at January 1, 2018	
Profit	
Other comprehensive income	
Comprehensive income	
Appropriation and distribution of retained earnings:	
Legal reserve	
Special reserve	
Cash dividends of ordinary share	
Balance at December 31, 2018	
Profit	
Other comprehensive income	
Comprehensive income	
Appropriation and distribution of retained earnings:	
Legal reserve	
Special reserve	
Cash dividends of ordinary share	
Changes in non-controlling interests	
Balance at December 31, 2019	

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OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from (used in) operating activities:		
Profit before tax	\$ 176,815	93,085
Adjustments:		
Adjustments to reconcile profit:		
Depreciation and amortization	19,665	5,983
Losses (gains) on inventory valuation and obsolete inventories	5,495	(1,928)
Expected credit loss	1,777	440
Interest income	(1,805)	(1,751)
Losses on disposal of financial assets at fair value through profit or loss	-	649
Interest expense	805	-
Loss on disposal of property, plant and equipment	9	20
Total adjustments to reconcile profit	<u>25,946</u>	<u>3,413</u>
Changes in operating assets and liabilities:		
Notes and accounts receivable	1,960	(100,826)
Other receivable	343	(343)
Inventories	(45,431)	22,895
Prepaid expenses and other current assets	(207)	1,949
Notes and accounts payable	(9,388)	53,065
Salaries payable	7,251	12,690
Accrued expenses and other payables	8,565	4,848
Other current liabilities	902	1,464
Others	(1,616)	(1,551)
Total adjustments	<u>(11,675)</u>	<u>(2,396)</u>
Cash inflow generated from operations	165,140	90,689
Interest received	1,559	1,743
Interest paid	(805)	-
Income taxes paid	(14,798)	(7,329)
Net cash flows from operating activities	<u>151,096</u>	<u>85,103</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at amortized cost	(20,000)	-
Acquisition of financial assets at fair value through profit or loss	-	(15,000)
Proceeds from disposal of financial assets at fair value through profit or loss	4,698	9,653
Acquisition of property, plant and equipment	(5,752)	(5,290)
Proceeds from disposal of property, plant and equipment	28	2
Acquisition of right-of-use assets	(437)	-
Acquisition of unamortized expense	(11,732)	(4,239)
Decrease (increase) in other non-current assets	(6,839)	450
Net cash flows used in investing activities	<u>(40,034)</u>	<u>(14,424)</u>
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(11,847)	-
Cash dividends	(51,291)	(21,884)
Change in non-controlling interests	1,500	-
Net cash flows used in financing activities	<u>(61,638)</u>	<u>(21,884)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(5,247)</u>	<u>(3,221)</u>
Net increase in cash and cash equivalents	44,177	45,574
Cash and cash equivalents at beginning of year	365,339	319,765
Cash and cash equivalents at end of year	<u>\$ 409,516</u>	<u>365,339</u>

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OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

OTSUKA INFORMATION TECHNOLOGY CORP. (“the Company”) was incorporated on August 4, 1995 in accordance with the Company Act. The Investment Commission, Ministry of Economic Affairs permits the foreign stockholders to invest the Company in accordance with the Statute for Investment by Foreign Nationals. The address of the Company’ s registered office is 6F., No. 68, Sec. 2, Sianmin Blvd., Banqiao Dist., New Taipei City. The major business activities of the Company and subsidiaries (together referred to as “the Group”) are designing, trading, maintaining, import and export the hardware, software, computers, network and accessories.

The Company’ s common shares were listed on the Taipei Exchange (“TPEX”) on October 23, 2008.

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issuance by the board of directors on March 16, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019. The related new standards, interpretations and amendments are as follows (In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 “Prepayment features with negative compensation”):

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(i) IFRS 16 “Leases”

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

The Group applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

1) Definition of a lease

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

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

2) As a lessee

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

The Group decided to apply recognition exemptions to short-term leases of parking lots and others.

● Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

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

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

3) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$40,138 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2%.

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 42,165
Recognition exemption for:	
short-term leases	(335)
	\$ 41,830
Discounted using the incremental borrowing rate at January 1, 2019 (as well as lease liabilities recognized at January 1, 2019)	\$ 40,138

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (b) The impact of IFRS endorsed by FSC but not yet effective

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

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

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

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

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

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

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except the defined benefit liabilities (assets) are recognized as plan assets less the present value of the defined benefit obligation, the consolidated financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Profit or loss applicable to the non controlling interests in a subsidiary are allocated to the non controlling interests even if doing so causes the non controlling interests to have a deficit balance.

Accounting policies of its subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The details of subsidiaries included in the consolidated financial statements as below:

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2019	December 31, 2018	
The Company	Otsuka Information Technology Ltd. (Otsuka)	Holding company	100%	100%	
The Company	To Gather Corp. (To Gather)	Restaurant	90%	- %	(Note 1)
Otsuka	Otsuka Software Trading (Dongguan) Ltd. (Otsuka Dongguan)	Software Merchandising	100%	100%	
Otsuka	Otsuka Software (Suzhou) Ltd. (Otsuka Suzhou)	Software Merchandising	- %	100%	(Note 2)
Otsuka	OITC Information Technology (Shanghai) Ltd. (OITC)	Software Merchandising	100%	100%	

Note 1: The subsidiary was established in July 2019.

Note 2: In January 2019, Otsuka Suzhou merged with OITC, with OITC being the surviving company and Otsuka Suzhou as the dissolved company.

(d) Foreign currencies

(i) Foreign currency transactions

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

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

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

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

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

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

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

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(g) Financial instruments

Account receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A account receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets classified as the same categories are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost and fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Fair value through profit or loss (FVTPL)

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

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

3) Impairment of financial assets

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

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

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

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

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group considers a financial asset to be in default when the financial asset is more than 1 year past due.

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

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-method and includes expenditure incurred in other costs incurred in bringing them to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings: 10~50 years
- 2) Computers: 2 ~3 years
- 3) Office equipment: 2 ~ 5 years

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities as a separate line item respectively in the balance sheet.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Applicable before January 1, 2019

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating leases are not recognized in the Group's balance sheet.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight line basis over the term of the lease. Revenue from lease incentives received are recognized as reductions of lease expenses on a straight-line basis. Contingent rent is recognized as expense in the period in which it is incurred.

(k) Intangible assets

(i) Recognition and measurement

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

Trademark	10 years
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Computer Software	3 years
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(l) Impairment – non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Revenue

(i) Revenue from contracts with customers

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

1) Sale of goods

The Group purchases and sells software products in the market and recognizes revenue when the goods are delivered to customers. A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

2) Rendering of services

The Group provides services such as installation of software, connection of systems and training. The related revenues are recognized when the Group has provided all services and has submitted the invoices to the customers.

Some contracts include multiple deliverables, such as software, installation of software, and training. In most cases, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Catering Service

The Group provides meals, beverages and services. The related revenues are recognized and charges are collected when meals, beverages and service are provided.

4) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. If it is more than one year, the transaction price would be adjusted during the period to reflect the impact of the time value of money in accordance with.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability (assets), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(o) Share based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(p) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(q) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The basic earnings per share are calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee remuneration.

(r) Operating segments

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

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

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

Management continues to monitor the accounting estimates and assumptions. Management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments made in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(a) Impairment of accounts receivable

The Group has estimated the loss allowance of accounts receivable that is based on the risk of a default occurring and the rate of expected credit loss. The Group has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs.

(b) Valuation of inventory

As inventories are measured at the lower of cost or net realizable value, the Group estimates the amount due to inventories' obsolescence and unmarketable items at the reporting date and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 349	128
Checking and demand desposts	266,667	209,295
Time deposits	142,500	155,916
	\$ 409,516	365,339

As of December 31, 2019 and 2018, the Group had provided time deposits amounted to \$500 thousands as collateral and the deposit have been reclassified to other non-current assets.

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

(b) Financial assets measured at amortized cost

	December 31, 2019	December 31, 2018
Financial bond — current	\$ 10,000	-
Financial bond — non-current	20,000	10,000
	\$ 30,000	10,000

The Group has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (i) The Group purchased the six-year bonds of Bank of Panhsin in June 2014. The face value of the bond was \$10,000 thousands and its effective interest rate was 3%.
- (ii) The Group purchased the seven-year bonds of Bank of Panhsin in June 2019 the face value of the bond was \$20,000 thousands and its effective interest rate was 2.25%.
- (iii) As of December 31, 2019 and 2018, the Group did not provide any of the aforementioned bond as collateral.

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

The Group purchased mutual funds amounted to \$10,000 thousands and \$5,000 thousands in January and September 2018, respectively, and sold them in February and December 2018, respectively. The losses from disposal amounted to \$649 thousands were recognized as other gains or losses. As of December 31, 2018, the receivable of aforementioned transaction amounted to \$4,698 thousands was recognized as other receivables, and collected in January 2019.

(d) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	\$ 25,577	52,241
Accounts receivable	261,752	238,344
	<u>287,329</u>	<u>290,585</u>
Less: allowance for doubtful accounts	(3,639)	(3,160)
Long-term notes and accounts receivable, net	(2,410)	(4,200)
	<u>\$ 281,280</u>	<u>283,225</u>

- (i) The Group did not provide any of the aforementioned notes and accounts receivable as collateral. The aforementioned notes and accounts receivable were not discounted because the due dates were less than a year. The book value is assumed to approximate the fair value.
- (ii) The amounts of notes and accounts receivable from the installment sales were \$8,910 thousands and \$12,023 thousands as of December 31, 2019 and 2018 respectively. The aforementioned receivables as of December 31, 2019 were expected to be recovered by \$6,500 thousands and \$2,410 thousands for the years ended December 31, 2020 and 2021, respectively. The aforementioned receivables as of December 31, 2018 were expected to be recovered by \$7,823 thousands and \$4,200 thousands for the years ended December 31, 2019 and 2020, respectively, and \$7,823 thousands were already recovered for the year ended December 31, 2019.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iii) The Group applies the simplified approach to provide for its ECL, the use of lifetime ECL provision for all notes and accounts receivables (including long-term). To measure the ECL, notes and accounts receivable have been grouped based on shared credit risk characteristics and customer' s ability to pay all the amounts due based on the terms of the contract as well as incorporated forward looking information. The ECL allowance provision analysis was as follows:

	December 31, 2019		
	Carrying amounts of notes and accounts receivable (including long-term)	Lifetime weighted-avera age ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 260,677	0%	-
Past due 0 to 60 days	21,468	0.5%~3%	157
Past due 61 to 210 days	2,380	7%~100%	678
Past due 211 to 360 days	2,183	30%~100%	2,183
More than 1 years past due	621	100%	621
	\$ 287,329		3,639

	December 31, 2018		
	Carrying amounts of notes and accounts receivable (including long-term)	Lifetime weighted-avera age ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 269,022	0%	-
Past due 0 to 60 days	14,508	0.5%~3%	121
Past due 61 to 210 days	4,116	7%~40%	454
Past due 211 to 360 days	536	30%~80%	182
More than 1 years past due	2,403	100%	2,403
	\$ 290,585		3,160

The movement in the allowance for notes and trade receivable was as follows:

	2019	2018
Balance on January 1	\$ 3,160	2,723
Impairment losses recognized	1,777	440
Amounts written off	(1,297)	-
Foreign exchange losses	(1)	(3)
Balance on December 31	\$ 3,639	3,160

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Inventories

	December 31, 2019	December 31, 2018
Software	\$ 89,462	47,733
Hardware	72	1,634
Merchandise	316	-
	\$ 89,850	49,367

The Group recognized the following items as cost of goods sold:

	2019	2018
Losses and (gains) on obsolete inventories and inventory valuation	\$ 3,826	(6,973)
Loss on disposal of inventories	1,669	5,045
Total	\$ 5,495	(1,928)

As of December 31, 2019 and 2018, the Group did not provide any of the aforementioned inventories as collateral.

(f) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2019 and 2018, were as follows:

	Land	Buildings	Computers	Office equipment	Total
Cost:					
Balance on January 1, 2019	\$ 10,260	6,175	21,554	3,761	41,750
Additions	-	1,577	4,049	126	5,752
Disposals	-	-	(1,081)	(109)	(1,190)
Effect of changes in exchange rates	-	-	(95)	(18)	(113)
Balance on December 31, 2019	\$ 10,260	7,752	24,427	3,760	46,199
Balance on January 1, 2018	\$ 10,260	6,175	17,141	3,551	37,127
Additions	-	-	5,064	226	5,290
Disposals	-	-	(587)	(4)	(591)
Effect of changes in exchange rates	-	-	(64)	(12)	(76)
Balance on December 31, 2018	\$ 10,260	6,175	21,554	3,761	41,750

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Land	Buildings	Computers	Office equipment	Total
Depreciation:					
Balance on January 1, 2019	\$ -	1,791	14,321	2,847	18,959
Depreciation	-	223	2,759	289	3,271
Disposals	-	-	(1,051)	(102)	(1,153)
Effect of changes in exchange rates	-	-	(79)	(15)	(94)
Balance on December 31, 2019	<u><u>\$ -</u></u>	<u><u>2,014</u></u>	<u><u>15,950</u></u>	<u><u>3,019</u></u>	<u><u>20,983</u></u>
Balance on January 1, 2018	\$ -	1,597	12,523	2,432	16,552
Depreciation	-	194	2,418	427	3,039
Disposals	-	-	(565)	(4)	(569)
Effect of changes in exchange rates	-	-	(55)	(8)	(63)
Balance on December 31, 2018	<u><u>\$ -</u></u>	<u><u>1,791</u></u>	<u><u>14,321</u></u>	<u><u>2,847</u></u>	<u><u>18,959</u></u>
Carring amounts:					
Balance on December 31, 2019	<u><u>\$ 10,260</u></u>	<u><u>5,738</u></u>	<u><u>8,477</u></u>	<u><u>741</u></u>	<u><u>25,216</u></u>
Balance on January 1, 2018	<u><u>\$ 10,260</u></u>	<u><u>4,578</u></u>	<u><u>4,618</u></u>	<u><u>1,119</u></u>	<u><u>20,575</u></u>
Balance on December 31, 2018	<u><u>\$ 10,260</u></u>	<u><u>4,384</u></u>	<u><u>7,233</u></u>	<u><u>914</u></u>	<u><u>22,791</u></u>

As of December 31, 2019 and 2018, the Group did not provide any of the aforementioned property, plant and equipment as collateral.

(g) Right-of-use assets

The cost and depreciation of the building for which the Group leases as a lessee were presented below:

	<u>Buildings</u>
Cost:	
Balance on January 1, 2019	\$ -
Effects of retrospective application	40,138
Additions	15,377
Disposals	(659)
Effect of changes in foreign exchange rates	(163)
Balance on December 31, 2019	<u><u>\$ 54,693</u></u>
Accumulated depreciation:	
Balance on January 1, 2019	\$ -
Depreciation	12,762
Disposals	(659)
Effect of changes in foreign exchange rates	(51)
Balance on December 31, 2019	<u><u>\$ 12,052</u></u>
Carrying amount:	
Balance on December 31, 2019	<u><u>\$ 42,641</u></u>

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(h) Lease liabilities

Lease liabilities of the Group were as follows:

	December 31, 2019
Current	\$ 14,500
Non-current	\$ 28,628

For the maturities analysis, please refer to note 6(q).

The amount recognized in profit or loss were as follows:

	For the year ended December 31, 2019
Interest on lease liabilities	\$ 805
Expenses relating to short-term leases and leases of low-value assets	\$ 3,850

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

	For the year ended December 31, 2019
Rental paid in operating activities	\$ (3,850)
Interest on lease liabilities paid in operating activities	(805)
Payment made on lease liabilities in financing activities	(11,847)
Total cash outflow for leases	\$ (16,502)

As of December 31, 2019, the Group leases buildings for its office space and warehouse. The leases of office space typically run for a period of 2 to 5 years, and of warehouse for 2 years.

(i) Operating lease

The Group leases a few offices, parking lots, cars, and employees' dorm under operating leases with a lease term between 1 and 5 years. Non-cancellable rentals payable of operating leases were as follows:

	December 31, 2018
Less than one year	\$ 11,167
Between one and five years	30,998
	\$ 42,165

The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Some of lease payments are increased every two years to reflect market rentals.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, the Group recognized operating lease expenses of \$17,536 thousands, as expenses. There is no contingent rent in any of the operating lease contracts.

(j) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and fair value adjustment of plan assets of the Group were as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ 29,445	20,851
Fair value of plan assets	24,007	21,322
Net defined benefit liability (asset)	<u>\$ 5,438</u>	<u>(471)</u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive payments based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Group contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$24,007 thousands at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Group for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Defined benefit obligation at January 1	\$ 20,851	20,943
Current service costs and interest expense	494	481
Remeasurement of net defined liability expense		
— Actuarial gain (loss) arising from experience adjustments	3,914	1,349
— Actuarial gain (loss) arising from financial assumptions	4,186	-
Benefits paid	-	(1,922)
Defined benefit obligation at December 31	<u>\$ 29,445</u>	<u>20,851</u>

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Movements in the fair value of plan assets

The movements in the fair value of plan assets for the Group for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets at January 1	\$ 21,322	20,730
Contributions paid by the employer	1,717	1,659
Interest income	392	373
Remeasurement of net defined asset		
— Return on plan assets (excluding interest income)	576	482
Benefits paid	-	(1,922)
Fair value of plan assets at December 31	<u><u>\$ 24,007</u></u>	<u><u>21,322</u></u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Current service costs	\$ 129	123
Net interest of net liability (asset) for defined benefit	<u>(27)</u>	<u>(15)</u>
	<u><u>\$ 102</u></u>	<u><u>108</u></u>
Selling expenses	\$ 83	88
Administrative expenses	14	14
Research and development expenses	5	6
	<u><u>\$ 102</u></u>	<u><u>108</u></u>

5) Remeasurement of the net defined benefit liabilities (asset) recognized in other comprehensive income

As of December 31, 2019 and 2018, the Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income were as follows:

	<u>2019</u>	<u>2018</u>
Cumulated amount at January 1	\$ (5,629)	(6,496)
Recognized during the period	7,525	867
Cumulated amount at December 31	<u><u>\$ 1,896</u></u>	<u><u>(5,629)</u></u>

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

6) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	2019	2018
Discount rate	1.50 %	1.75 %
Future salary increase rate	4.00 %	3.00 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one year period after the reporting date was \$2,587 thousands.

The weighted average duration of the defined benefit plans is 6.6 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligations as of December 31, 2019 and 2018, would have been as follows:

		Influence of defined benefit obligations	
		Increased 0.25%	Decreased 0.25%
Discount rate:			
December 31, 2019	\$	(905)	947
December 31, 2018	\$	(620)	649
		Influence of defined benefit obligations	
		Increased 1%	Decreased 1%
Future salary increase rate:			
December 31, 2019	\$	3,653	(3,152)
December 31, 2018	\$	2,550	(2,184)

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

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

(ii) Defined contribution plans

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

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company's foreign subsidiaries have defined contribution plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to these plans are expensed as incurred without additional legal or constructive obligation.

The Group recognized pension costs under the defined contribution method amounted to \$7,653 thousands and \$7,295 thousands for the years ended December 31, 2019 and 2018, respectively.

(k) Income taxes

(i) Income tax expense

The components of income tax expenses were as follows:

	2019	2018
Current tax expense	\$ 31,142	15,363
Deferred tax expense	2,671	3,477
Income tax expense	\$ 33,813	18,840

(ii) The amounts of income tax benefit recognized in other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Exchange differences on translation	\$ (943)	(799)

(iii) Reconciliation of income tax expense and profit before tax for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Profit before income tax	\$ 176,815	93,085
Income tax using the Company's domestic tax rate	37,205	20,117
Effect of tax rate differential in foreign jurisdictions	563	398
Adjustment in income tax rate	-	(541)
Current-year losses for which no deferred tax asset was recognized	245	142
Change in unrecognized temporary difference	2	-
Recognition of previously unrecognized tax losses	(2,813)	(2,129)
Change in provision in prior periods	(3,279)	6
10% surtax on unappropriated earnings	627	181
Other	1,263	666
	\$ 33,813	18,840

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Deferred tax assets and liabilities

There are no unrecognized deferred tax liabilities. Deferred tax assets have not been recognized with respect to the following items:

	December 31, 2019	December 31, 2018
Tax effect of deductible temporary difference	\$ 2	-
Tax losses	2,355	4,923
	\$ 2,357	4,923

There are no unrecognized deferred tax liabilities. Deferred tax assets have not been recognized with respect to the following items:

Change in the amount of deferred tax assets and liabilities for the years ended December 31, 2019 and 2018, were as follows:

	Investment income of subsidiaries recognized under the equity method	Defined benefit obligations	Other	Total
Deferred tax liabilities:				
Balance on January 1, 2019	\$ 1,138	1,125	10	2,273
Recognized in profit or loss	2,065	323	(10)	2,378
Balance on December 31, 2019	\$ 3,203	1,448	-	4,651
Balance on January 1, 2018	\$ -	692	-	692
Recognized in profit or loss	1,138	433	10	1,581
Balance on December 31, 2018	\$ 1,138	1,125	10	2,273

	Investment income of subsidiaries recognized under the equity method	Share of other comprehensiv e income of subsidiaries recognized under the equity method	Loss on inventory valuation and obsolete inventories	Bad debt in excess of tax limit	Others	Total
Deferred tax assets:						
Balance on January 1, 2019	\$ -	(2,005)	(1,226)	(279)	(967)	(4,477)
Recognized in profit or loss	-	-	(236)	(121)	650	293
Recognized in other comprehensive income	-	(943)	-	-	-	(943)
Foreign currency translation differences for foreign operations	-	-	-	1	7	8
Balance on December 31, 2019	\$ -	(2,948)	(1,462)	(399)	(310)	(5,119)
Balance on January 1, 2018	\$ (309)	(1,206)	(1,492)	(364)	(2,208)	(5,579)
Recognized in profit or loss	309	-	266	84	1,237	1,896
Recognized in other comprehensive income	-	(799)	-	-	-	(799)
Foreign currency translation differences for foreign operations	-	-	-	1	4	5
Balance on December 31, 2018	\$ -	(2,005)	(1,226)	(279)	(967)	(4,477)

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (v) The Company's income tax returns have been examined by the tax authority through the years up to 2017.

(l) Capital and other equity

(i) Capital

As of December 31, 2019 and 2018, the number of authorized ordinary shares both were 20,000 thousand shares with par value of \$10 (dollars) per share and amounted to \$200,000 thousands. As of the dates, 17,097 thousand shares of ordinary shares were issued and all issued ordinary shares were paid up upon issuance.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2019	December 31, 2018
Additional paid-in capital	\$ 68,176	68,176
Employee stock options	637	637
	<u>\$ 68,813</u>	<u>68,813</u>

According to the amendment of ROC Company Act in January 2012, capital surplus can only be used to offset an accumulated deficit, and then the realized capital surplus can be distributed as stock dividends or cash dividends according to the stockholders' original percentage of ownership. The aforementioned realized capital surplus includes capital surplus resulting from premium upon the issuance of capital stock and donation gains. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the increase in capital by transferring the paid-in capital in excess of the par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

According to the articles of the Corporation, when allocating the earnings for each year, the Corporation shall first pay income taxes, and offset its prior years' deficits, if any. Of the remaining balance, 10% is to be appropriated as legal reserve, until the accumulated legal reserve has equaled the total capital of the Corporation; then set aside a special reserve in accordance with the relevant laws when necessary. The balance of the earnings shall combined into an aggregate amount of undistributed earnings, which shall become the aggregate distributable earnings to be distributed by the directors' distribution proposals and the resolution at the stockholders' meeting.

The Company shall consider the demand for expanding the scale of corporation, cash-flow, retained earnings, flexibility of business operation, and strength of competition to distribute dividend. The dividend distributed by directors' meeting shall not be less than 20% of the net amount of the annual profit after deducting the reserve retained in accordance with the laws while cash dividend shall not be less than 10% of the distributed dividend. The rate of cash dividend could be adjusted by the stockholders' meeting in accordance with the actual profit in the year and demand of cash-flow in the future.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a stockholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash to shareholders, and only the portion of the legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

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

3) Earnings distribution

On June 24, 2019, and June 15, 2018, the stockholders' meeting resolved the distribution of earnings for 2018 and 2017, respectively. The distribution was \$3.00 (dollars) and \$1.28 (dollars) per share, which amounted to \$51,291 thousands and \$21,884 thousands, respectively. Information can be accessed in the Market Observation Post System website.

(m) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2019 and 2018, based on the profit attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding was as follows:

	2019	2018
Profit attributable to owners of parent	<u>\$ 143,126</u>	<u>74,245</u>
	2019	2018
Weighted average number of ordinary shares (thousand shares)	<u>17,097</u>	<u>17,097</u>

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2019 and 2018, based on the profit attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares was as follows:

	2019	2018
Profit attributable to owners of parent (diluted)	<u>\$ 143,126</u>	<u>74,245</u>
	2019	2018
Weighted average number of ordinary shares (basic) (thousand shares)	17,097	17,097
Effect of employee remuneration	<u>123</u>	<u>116</u>
Weighted average number of ordinary shares (diluted) (thousand shares)	<u>17,220</u>	<u>17,213</u>

(n) Revenue from contracts with customers

(i) Disaggregation of revenue

	2019			
	Business unit 1	Business unit 2	Business unit 3	Total
Primary geographical markets:				
Taiwan	\$ 1,091,447	-	-	1,091,447
China	-	51,957	61,971	113,928
	<u>\$ 1,091,447</u>	<u>51,957</u>	<u>61,971</u>	<u>1,205,375</u>
Major products:				
CAD	\$ 735,870	33,050	42,466	811,386
Subscription contracts	144,379	12,293	12,859	169,531
Service	80,891	2,252	2,706	85,849
3D Animation	31,062	-	-	31,062
Catering service	159	-	-	159
Other	99,086	4,362	3,940	107,388
	<u>\$ 1,091,447</u>	<u>51,957</u>	<u>61,971</u>	<u>1,205,375</u>

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2018			
	Business unit 1	Business unit 2	Business unit 3	Total
Primary geographical markets:				
Taiwan	\$ 824,099	-	-	824,099
China	-	51,241	48,328	99,569
	\$ 824,099	51,241	48,328	923,668
Major products:				
CAD	\$ 475,938	29,906	38,390	544,234
Subscription contracts	141,693	16,472	4,311	162,476
Service	77,043	894	1,203	79,140
3D Animation	32,796	-	-	32,796
Other	96,629	3,969	4,424	105,022
	\$ 824,099	51,241	48,328	923,668

(ii) Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes and accounts receivable (including long-term)	\$ 287,329	290,585	189,759
Less: allowance for impairment	(3,639)	(3,160)	(2,723)
Total	\$ 283,690	287,425	187,036

For details on notes, accounts receivable (including long-term) and allowance for impairment, please refer to note 6(d).

(o) Employee directors' and supervisors' remuneration

Based on the Company's articles of incorporation, more than 5% of annual profit should be appropriated as employee remuneration. The board of directors will adopt a resolution on whether the distribution is paid in cash or stock. Qualified employees, including the employees of subsidiaries of the Company meeting certain specific requirements, are entitled to receive their remuneration specified by the board of directors. The annual profit aforementioned may also be appropriated as directors' and supervisors' remuneration through the board's resolution, wherein the amount should not exceed 3% of annual profit. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficits.

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For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to \$9,412 thousands and \$4,954 thousands, and directors' and supervisors' remuneration amounting to \$2,824 thousands and \$1,486 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating expenses during 2019 and 2018. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2019 and 2018.

(p) Other gains and losses

The details of other gains and losses for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Foreign exchange gains (loss)	\$ (24)	307
Gains on disposal of investments, net	1,306	75
Other	355	(179)
	<u>\$ 1,637</u>	<u>203</u>

(q) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2019 and 2018, the maximum amount to credit risk amounted to \$739,937 thousands and \$677,697 thousands, respectively.

2) Concentration of credit risk

Since the Group has a lot of customers, it does not trade with single customer and market areas are diversified. The Group periodically evaluates these customers' financial position and the possibility of recovery of notes and accounts receivable to decrease credit risk, collaterals will be requested from the customers if necessary.

3) For credit risk exposure of notes and accounts receivables (including long-term), please refer to note 6(d).

4) The exposure to credit risk for the financial assets at amortized cost are measured and monitored by the Group's finance department. The Group only deals with banks with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

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Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>
December 31, 2019					
Accounts payable	\$ 97,189	97,189	97,189	-	-
Lease liabilities	43,128	44,529	15,227	13,623	15,679
Other financial liabilities	14,522	14,522	14,522	-	-
	\$ 154,839	156,240	126,938	13,623	15,679
December 31, 2018					
Accounts payable	\$ 106,577	106,577	106,577	-	-
Other financial liabilities	11,464	11,464	11,464	-	-
	\$ 118,041	118,041	118,041	-	-

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>December 31, 2019</u>			<u>December 31, 2018</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets						
Monetary items-USD	\$ 150	30.10	4,511	249	30.73	7,653
Financial liabilities						
Monetary items-USD	1	30.10	18	17	30.73	525

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents and accounts payable that are denominated in foreign currency. A weakening (strengthening) of 5% of the TWD against the USD as of December 31, 2019 and 2018, would have increased or decreased the profit after tax by \$180 thousands and \$285 thousands for the years ended December 31, 2019 and 2018, respectively. The analysis is performed on the same basis for both periods.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Foreign exchange gain or loss on monetary items

The information on the amount of the Group' s foreign exchange gain or loss on monetary items (including realized and unrealized) translated to the functional currency, and on the exchange rate translated to the functional currency of the parent company (the presentation currency), TWD, was as follows:

Functional currencies	2019		2018	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
TWD	\$ (22)	1	377	1
CNY	(2)	4.474	(70)	4.562
	<u>\$ (24)</u>		<u>307</u>	

(iv) Interest rate analysis

The Group' s financial assets with floating-rate were bank deposits and there were no financial liabilities with floating-rates. The Group believes that the cash flow risk arising from the fluctuation in interest rates was not significant and the sensitivity analysis of interest rate was not required.

(v) Fair value

Kinds of financial instruments and fair value

The carrying amount and fair value of the Group' s financial assets and liabilities, including the information on fair value hierarchy were as follows; however, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required :

		December 31, 2019			
		Fair Value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:					
Financial bond	\$ 30,000				
Cash and cash equivalents	409,516				
Notes and accounts receivable (including long-term)	283,690				
Refundable deposits	16,231				
Other non-current financial assets	<u>500</u>				
Total	<u>\$ 739,937</u>				

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		December 31, 2019				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost:						
Accounts payable	\$	97,189				
Salaries payable, accrued expenses payable and other payables		102,203				
Lease liabilities		<u>43,128</u>				
Total		<u><u>\$ 242,520</u></u>				
		December 31, 2018				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:						
Financial bond	\$	10,000				
Cash and cash equivalents		365,339				
Notes and accounts receivable (including long-term)		287,425				
Other receivables		5,041				
Refundable deposits		9,392				
Other non-current assets		<u>500</u>				
Total		<u><u>\$ 677,697</u></u>				
Financial liabilities measured at amortized cost:						
Accounts payable	\$	106,577				
Salaries payable, accrued expenses payable and other payables		<u>70,077</u>				
Total		<u><u>\$ 176,654</u></u>				

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Financial risk management

(i) Overview

The Group has exposure to the following risks arising from financial instruments:

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

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

(ii) Structure of risk management

The financial management department of the Group provides services for each business, including helping businesses to operate in the domestic and international financial markets, and supervising and managing the financial risks of the Group related to the operation by analyzing the internal risk report in accordance with the degree and extent of risk. Internal auditors continue to review policy compliance and risk limits.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Group's cash and cash equivalents; receivables; and bonds.

1) Notes, accounts and other receivables

The Group has established a credit policy and is required to transact with corporations having high credit ratings. The Group uses external credit rating systems and previous transaction records to assess the credit quality and set the credit limits for the customer. The Group constantly supervises credit exposures and credit limits of transaction partners, and controls credit exposures through setting the credit limits.

2) Investment

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Liquidity risk

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

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on bank desposites that are denominated in a currency other than the respective functional currencies of the Group's entities. The bank desposites are denominated in USD. The Group believes the cash flow risk arising from the fluctuation in exchange rates is not significant.

2) Interest rate risk

The Group's main assets with a floating interest rate basis are bank deposits. The Group believes that cash flow risk arising from the fluctuation in interest rates is not significant.

(s) Capital Management

The Group's capital management policy is to maintain a strong capital base and appropriate debt ratio so as to maintain investor, creditor, and market confidence to sustain the future development of the business.

As of December 31, 2019 and 2018, the debt ratios were 28% and 24%, respectively. There were no changes in the Group's approach to capital management as of December 31, 2019.

(t) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the year ended December 31, 2019, were as follows:

(i) For acquisition of right-of-use asset from lease, please refer to notes 6(g) and (h).

(ii) Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Acquisition	Cash flows	Non-cash changes	December 31, 2019
Lease liabilities (total liabilities from financing activities)	\$ 40,138	14,940	(11,847)	(103)	43,128

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Related-party transactions:

(a) Names and relationship of the related parties

The followings is related party that has had transactions with the Group during the periods covered in the consolidated financial statements.

Name	Relationship
Otsuka Information System Trading (Shanghai) Limited (Otsuka Shanghai)	The same chairman as the Company

(b) Significant transactions with related parties

(i) Sales

The amounts of sales by the Group to related parties and the outstanding balances were as follows:

	Sales		Accounts receivable	
	2019	2018	December 31, 2019	December 31, 2018
Other related parties				
Otsuka Shanghai	\$ 5,283	6,081	294	584

The selling price for aforementioned related parties was based on cost-plus. There were no significant differences in the trading terms between related parties and other customers. The credit terms with related parties were 30 days, whereas the terms with other customers were 30 to 240 days, for the years ended December 31, 2019 and 2018.

(c) Key management personnel compensation

Key management personnel compensation comprised:

	2019	2018
Short term employee benefits	\$ 20,200	10,038
Termination benefits	178	138
Post employment benefits	-	-
Other long term benefits	-	-
Share based payments	-	-
	<u>\$ 20,378</u>	<u>10,176</u>

(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2019	December 31, 2018
Other non-current assets — restricted deposit	line of corporate credit card	\$ 500	500

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Significant commitments and contingencies:

- (a) For the detail of the Group's guarantee, please refer to note 13.
 (b) Guarantee notes provided as part of agreements and line of forward exchange were as follows:

	December 31, 2019	December 31, 2018
Guaranteed notes	<u>\$ 19,628</u>	<u>19,628</u>

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By item	By function	2019			2018		
		Cost of Sale	Operating Expense	Total	Cost of Sale	Operating Expense	Total
Employee benefits							
Salary		-	177,245	177,245	-	151,261	151,261
Labor and health insurance		-	11,185	11,185	-	10,161	10,161
Pension		-	7,755	7,755	-	7,403	7,403
Others		-	7,184	7,184	-	6,563	6,563
Depreciation		-	16,033	16,033	-	3,039	3,039
Amortization		-	3,632	3,632	-	2,944	2,944

(13) Other disclosures:

- (a) Information on significant transactions:

The followings were the information on significant transactions required to be disclosed by the Regulations for the Group:

- (i) Loans to other parties:

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	The Company	To Gather Corp.	Other receivables	Y	10,000	10,000	-	-	Necessary to short-term loans to other parties	-	Operating capital	-	N	-	66,007	132,013
1	Otsuka Software Trading (Dongguan) Ltd.	Otsuka OITC Information Technology (Shanghai) Ltd.	Other receivables	Y	23,015	21,600	-	-	Necessary to short-term loans to other parties	-	Operating capital	-	N	-	51,817	74,025

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note1: The ending balance is the amount of loans to other parties were authorized by the board of directors.

Note2: The total amount of loans provided by the domestic subsidiaries to a company shall not exceed 10% of its net worth; and the total amount of loans to all companies shall not exceed 20% of their net worth.

Note3: The total amount of loans provided by the foreign subsidiaries to a company shall not exceed 70% of their net worth; and the total amount for loans to all companies shall not exceed their net total worth.

Note4: Related transactions have been eliminated during the preparation of the consolidated financial statements.

(ii) Guarantees and endorsements for other parties:

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company	To Gather Corp.	The Subsidiary of the Company	66,007	10,000	10,000	-	-	1.51%	264,026	Y	N	N

Note 1: The total amount of guarantee to a subsidiary, where the Company holds more than 90% of its shares, shall not exceed 20% of the Company's net worth; and the total amount of guarantee to other subsidiaries shall not exceed 10% of the Company's net worth. The total amount of the guarantee to all companies shall not exceed 40% of the Company's total worth.

Note 2: The above counter-parties of guarantee and endorsement are subsidiaries included in the consolidated financial statements.

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Company holding securities	Category and name of security	Relationship with company	Account name	Ending balance				Highest		
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares / Units (thousands)	Percentage of ownership (%)	Note
The Company	Financial Bond: FY2014 1st subordinated bond of Bank of Panhsin	None	Financial assets measured at amortized cost-current	-	10,000	- %	10,000	- %	- %	
"	FY2019 1st subordinated bond of Bank of Panhsin	None	Financial assets measured at amortized cost-non-current	-	20,000	- %	20,000	- %	- %	

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

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Otsuka Software Trading (Dongguan) Ltd.	Structured Investment Products	Financial Assets at Fair Value through Profit and Loss	-	-	-	-	-	93,954	-	94,738	93,954	784	-	-
Otsuka OITC Information Technology (Shanghai) Ltd.	"	"	-	-	-	-	-	62,636	-	63,158	62,636	522	-	-

(v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None

(vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:None

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None
- (ix) Trading in derivative instruments:None
- (x) Business relationships and significant intercompany transactions:

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	Otsuka Software Trading (Dongguan) Ltd.	Otsuka Information Technology (Shanghai) Ltd.	Between subsidiaries	Purchase	12,708	Cost-plus	1.05%
"	"	"	"	Accounts Payable	3,503	30 days	0.38%
"	"	"	"	Sale	1,061	"	0.09%

Note1: 1. "0" represents the parent company.

2.Subsidiaries are numbered sequentially from "1".

Note2: Disclose transactions amounts exceeding the lower of NT\$1 million.

Note3: Related transactions have been eliminated during the preparation of the consolidated financial statements.

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Highest		Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			Shares (thousand)	Percentage of ownership	
The company	Otsuka Information Technology Ltd.	Hong Kong	Holding company	129,517	129,517	32,760	100.00%	133,757	10,321	10,321	32,760	100.00%	Note
"	To Gather Corp.	Taiwan	Restaurant	13,500	-	1,350	90.00%	12,390	(1,234)	(1,110)	1,350.00%	90.00%	Note

Note : Related transactions have been eliminated during the preparation of the consolidated financial statements.

(c) Information on investment in China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Highest balance during the year		Accumulated remittance of earnings in current period
					Outflow	Inflow						Shares (thousand)(Note)	Percentage of ownership	
Otsuka Software Trading (Dongguan) Ltd.	Software merchandising	48,160 (US\$1,600 thousand)	Investing in China through the company incorporated in the third country	48,160 (US\$1,600 thousand)	-	-	48,160 (US\$1,600 thousand)	8,341	100.00%	8,341	74,025	-	100%	-
Otsuka Software (Suzhou) Ltd.	Software merchandising	-	Investing in China through the company incorporated in the third country	48,160 (US\$1,600 thousand)	-	-	- (Note 2)	-	-%	-	-	-	-	-
Otsuka Information Technology (Shanghai) Ltd.	Software merchandising	78,260 (US\$1,000 thousand)	Investing in China through the company incorporated in the third country	30,100 (US\$1,000 thousand)	-	-	78,260 (US\$2,600 thousand) (Note 2)	1,980	100.00%	1,980	59,725	-	100%	-

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 1: The limited companies did not issue the shares.

Note 2: In January 2019, Otsuka Suzhou merged with OITC, with OITC being the surviving company and Otsuka Suzhou as the dissolved company.

(ii) Limitation on investment in China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
126,420 (USD4,200 thousand)	126,420 (USD4,200 thousand)	396,040

Note: The TWD amount was measured on December 31, 2019 with the spot exchange rate of 30.10.

The above investment income (losses) were based on the financial statements audited by the Company's auditors.

(iii) Significant transactions: None

(14) Segment information:

(a) General information

For the purpose of resource allocation and performance measurement, the Group separates the operating segments according to the customers' geographical locations and conditions. The Group regularly monitors and manages every segment's operating results through operating decision makers. The operating segments of Business Unit 1, Business Unit 2, and Business Unit 3 are the reportable segments, whose revenues mainly come from CAD, designing, valuable and multiple CAD integration, and consulting services.

Since the operating segments supply different kinds of products and services, and the sales units will differ in their product categories and marketing strategies, the operating segments are managed separately.

(b) Reportable segments' profit or loss, segment assets and their measurement and reconciliation

Income tax and extraordinary profits and losses are not allocated to the Group's reportable segments, and the amounts for the reported segments are identical with those in the report used by the chief operating decision maker.

The accounting policies of the operating segments are the same as those described in note 4 and the Group assessed the performance of the segments based on the segments' income before income taxes (excluding extraordinary profit or loss and exchange gains or losses). Sales and transfers between segments are deemed to be transactions with third parties and are measured by using the market price.

OTSUKA INFORMATION TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group's segment financial information was as follows:

E\	2019				
	Business Unit 1	Business Unit 2	Business Unit 3	Reconciliation and write-off	Total
External revenues	\$ 1,091,447	51,957	61,971	-	1,205,375
Intra-group revenue	27	4,393	9,968	(14,388)	-
Total segment revenue	\$ 1,091,474	56,350	71,939	(14,388)	1,205,375
Reportable segment profit and loss	\$ 164,667	3,409	6,102	=	174,178

	2018				
	Business Unit 1	Business Unit 2	Business Unit 3	Reconciliation and write-off	Total
External revenues	\$ 824,099	51,241	48,328	-	923,668
Intra-group revenue	-	5,877	3,293	(9,170)	-
Total segment revenue	\$ 824,099	57,118	51,621	(9,170)	923,668
Reportable segment profit and loss	\$ 84,079	3,875	3,177	=	91,131

(c) Products and services information

The Group's revenue from external customers were as follows:

Products and services	2019	2018
CAD	\$ 811,386	544,234
Subscription contracts	169,531	162,476
Service	85,849	79,140
3D Animation	31,062	32,796
Catering service	159	-
Other	107,388	105,022
Total	\$ 1,205,375	923,668

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(d) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and non-current assets are based on the geographical location of the assets. Details were as follows:

Geographic Information	2019	2018
External revenues:		
Taiwan	\$ 1,091,447	824,099
China	113,928	99,569
Total	<u>\$ 1,205,375</u>	<u>923,668</u>
Non-current assets		
Taiwan	\$ 77,851	27,589
China	4,007	1,114
Total	<u>\$ 81,858</u>	<u>28,703</u>

(e) Major customers

The Group's revenues from a single customer did not exceed 10% of operating revenues in the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018, so the Group does not disclose any information on major customers.

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Independent Auditors' Report

To the Board of Directors of OTSUKA INFORMATION TECHNOLOGY CORP.:

Opinion

We have audited the parent company only financial statements of OTSUKA INFORMATION TECHNOLOGY CORP.("the Company"), which comprise the parent company only balance sheets as of December 31, 2019 and 2018, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2019 and 2018, and its parent company only financial performance and its parent company only cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our professional judgments, key audit matters to be communicated in the independent auditors' report are listed below:

1. Evaluation of inventories

Please refer to Note 4(g) "Inventories" , Note 5(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" , and Note 6(e) "Inventories" of the parent company only financial statements.

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Description of key audit matter:

The Company's inventories are measured at the lower of cost and net realizable value. Due to the rapid transformation of technology, the products may be out of date in the market and there is a risk that the cost of the inventory would be higher than its net realizable value. The condition of inventories to be sold will influence the result of evaluation so consistent attention are required. In addition, the inventories are the significant account in the parent company only financial statement. Therefore, evaluation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the allowance and obsolescence of the inventories of the Company and inspecting whether existing inventory policies are applied; sampling the individual inventory items and examining the sources of the net realizable value of the samples to access whether the net realizable value are reasonable; examining the accuracy of aging of inventories by sampling and analyzing the changes of the aging of inventories; inspecting the reasonableness for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are appropriate.

2. Impairment of accounts receivable

Please refer to Note 4(f) "Financial Instruments", Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty", and Note 6(d) "Notes and accounts receivable" of the parent company only financial statements.

Description of key audit matter:

The Company's accounts receivable are derived from sales of software and rendering of service, the balance constitutes 28% of the assets as of December 31, 2019. Due to the payment terms of the major customers are long and the receivables are not collected totally up to the date of the auditors' report. The recoverability of accounts receivable requires subjective judgments of the management. Therefore, impairment assessment of receivables is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: testing internal control process of accounts receivable; understanding the policies of evaluating the allowance of accounts receivable of the Company and inspecting whether existing receivables policies are applied; asking the management whether there are any debtors with financial difficulties and examining the accuracy of aging of receivables by sampling; inspecting the reasonableness of impairment loss of receivables recognized by the management in the past and compare it to the current year to ensure that the measurements and assumptions are appropriate; inspecting collection of receivables in the subsequent period to assess the reasonability of impairment loss measurement.

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

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

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

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Those charged with governance (including the Audit supervisors) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

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

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

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

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period 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 Mei-Pin Wu and Chun-Wei Chuang.

KPMG

Taipei, Taiwan (Republic of China)
March 16, 2020

Notes to Readers

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

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

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
OTSUKA INFORMATION TECHNOLOGY CORP.

Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Assets				
Current assets:				
1100 Cash and cash equivalents (note 6(a))	\$ 298,646	34	267,989	36
1137 Financial assets at amortized cost – current (note 6(b))	10,000	1	-	-
1170 Notes and accounts receivable, net (notes 6(d) and (o))	250,311	28	249,707	33
1200 Other receivables (note 6(c))	-	-	5,041	1
1300 Inventories (note 6(e))	84,257	9	44,933	6
1410 Prepaid expense and other current assets	1,521	-	1,995	-
	644,735	72	569,665	76
Non-current assets:				
1535 Financial assets at amortized cost – non-current (note 6(b))	20,000	2	10,000	1
1550 Investments accounted for using equity method, net (note 6(f))	146,147	16	128,147	17
1600 Property, plant and equipment (note 6(g))	22,914	3	22,231	3
1755 Right-of-use assets (note 6(h))	33,745	4	-	-
1900 Other non-current assets (notes 6(a), (d), (k), (l) and 8)	22,653	3	19,258	3
	245,459	28	179,636	24
Total assets	<u>\$ 890,194</u>	<u>100</u>	<u>749,301</u>	<u>100</u>
Liabilities and Equity				
Current liabilities:				
2170 Accounts payable				
2201 Salaries payable				
2200 Accrued expenses and other payables				
2280 Current lease liabilities (note 6(i))				
2300 Other current liabilities				
	\$ 82,738	9	96,891	13
	47,029	5	40,041	5
	50,707	6	26,566	4
	10,277	1	-	-
	5,286	1	4,006	1
	196,037	22	167,504	23
Non-current liabilities:				
2570 Deferred tax liabilities (note 6(l))	4,651	-	2,273	-
2580 Non-current lease liabilities (note 6(i))	24,002	3	-	-
2640 Net defined benefit liability (note 6(k))	5,438	1	-	-
	34,091	4	2,273	-
Total liabilities	230,128	26	169,777	23
3100 Ordinary shares (note 6(m))	170,970	19	170,970	23
3200 Capital surplus (note 6(m))	68,813	8	68,813	9
3310 Legal reserve (note 6(m))	80,470	9	73,045	9
3320 Special reserve (note 6(m))	7,162	1	5,031	1
3350 Unappropriated retained earnings (note 6(m))	343,581	38	268,827	36
3400 Other equity interest	(10,930)	(1)	(7,162)	(1)
Total equity	660,066	74	579,524	77
Total liabilities and equity	<u>\$ 890,194</u>	<u>100</u>	<u>749,301</u>	<u>100</u>

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(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
OTSUKA INFORMATION TECHNOLOGY CORP.

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (note 6(o))	\$ 1,091,288	100	824,099	100
5000	Operating costs (notes 6(e) and 7)	682,795	63	532,751	65
	Gross profit	408,493	37	291,348	35
	Operating expenses: (notes 6(d), (i), (j), (k), (p), 7 and 12)				
6100	Selling expenses	198,360	18	169,277	20
6200	Administrative expenses	36,190	3	30,547	4
6300	Research and development expenses	6,231	1	7,023	1
6450	Expected credit loss	1,815	-	422	-
	Total operating expenses	242,596	22	207,269	25
	Net operating income	165,897	15	84,079	10
	Non-operating income and expenses:				
7100	Interest income	1,573	-	1,360	-
7020	Other gains and losses (notes 6 (c) and (q))	73	-	(304)	-
7070	Share of profit of subsidiaries accounted for using equity method	9,211	1	7,507	1
7510	Interest expense (note 6(i))	(745)	-	-	-
	Total non-operating income and expenses	10,112	1	8,563	1
	Profit before tax	176,009	16	92,642	11
7950	Less: Income tax expenses (note 6(l))	32,883	3	18,397	2
	Profit	143,126	13	74,245	9
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified to profit or loss				
8311	Remeasurements of defined benefit plans (note 6(k))	(7,525)	(1)	(867)	-
8349	Income tax related to items that will not be reclassified to profit or loss	-	-	-	-
		(7,525)	(1)	(867)	-
8360	Items that may be reclassified to profit or loss				
8361	Exchange differences on translation of foreign operations' s financial statements	(4,711)	-	(2,930)	-
8399	Income tax related to items that may be reclassified to profit or loss (note 6(l))	943	-	799	-
		(3,768)	-	(2,131)	-
8300	Other comprehensive income	(11,293)	(1)	(2,998)	-
8500	Total comprehensive income	\$ 131,833	12	71,247	9
	Earnings per share (NT dollars) (note 6(u))				
	Basic earnings per share	\$ 8.37		4.34	
	Diluted earnings per share	\$ 8.31		4.31	

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
OTSUKA INFORMATION TECHNOLOGY CORP.

Statements of Changes in Equity

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

	Share capital		Retained earnings			Other equity	
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Total equity
Balance at January 1, 2018	\$ 170,970	68,813	70,470	3,813	221,126	(5,031)	530,161
Profit	-	-	-	-	74,245	-	74,245
Other comprehensive income	-	-	-	-	(867)	(2,131)	(2,998)
Comprehensive income	-	-	-	-	73,378	(2,131)	71,247
Appropriation and distribution of retained earnings:							
Legal reserve	-	-	2,575	-	(2,575)	-	-
Special reserve	-	-	-	1,218	(1,218)	-	-
Cash dividends of ordinary share	-	-	-	-	(21,884)	-	(21,884)
Balance at December 31, 2018	170,970	68,813	73,045	5,031	268,827	(7,162)	579,524
Profit	-	-	-	-	143,126	-	143,126
Other comprehensive income	-	-	-	-	(7,525)	(3,768)	(11,293)
Comprehensive income	-	-	-	-	135,601	(3,768)	131,833
Appropriation and distribution of retained earnings:							
Legal reserve	-	-	7,425	-	(7,425)	-	-
Special reserve	-	-	-	2,131	(2,131)	-	-
Cash dividends of ordinary share	-	-	-	-	(51,291)	-	(51,291)
Balance at December 31, 2019	\$ 170,970	68,813	80,470	7,162	343,581	(10,930)	660,066

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(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
OTSUKA INFORMATION TECHNOLOGY CORP.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	\$ 176,009	92,642
Adjustments:		
Adjustments to reconcile profit:		
Depreciation and amortization	16,614	5,420
Losses on inventory valuation and obsolete inventories	2,851	2,396
Expected credit loss	1,815	422
Loss on disposal of financial assets at fair value through profit or loss	-	649
Interest expense	745	-
Interest income	(1,573)	(1,360)
Share of profit of subsidiaries accounted for using equity method	(9,211)	(7,507)
Loss (gain) on disposal of property, plan and equipment	4	(1)
Total adjustments to reconcile profit	11,245	19
Changes in operating assets and liabilities:		
Notes and accounts receivable	(629)	(88,915)
Other receivable	343	(343)
Inventories	(42,175)	18,070
Prepaid expenses and other current assets	720	(85)
Accounts payable	(14,153)	47,551
Salaries payable	6,988	12,934
Accrued expenses and other payables	8,767	4,492
Other current liabilities	1,280	2,242
Others	(1,616)	(1,551)
Total adjustments	(29,230)	(5,586)
Cash inflow generated from operations	146,779	87,056
Interest received	1,327	1,352
Interest paid	(745)	-
Income taxes paid	(14,798)	(7,329)
Net cash flows from operating activities	132,563	81,079
Cash flows from (used in) investing activities:		
Acquisition of financial assets at amortized cost	(20,000)	-
Acquisition of financial assets at fair value through profit or loss	-	(15,000)
Proceeds from disposal of financial assets at fair value through profit or loss	4,698	9,653
Acquisition of investments accounted for using equity method	(13,500)	-
Acquisition of property, plant and equipment	(3,809)	(5,123)
Proceeds from disposal of property, plant and equipment	28	2
Increase in other non-current assets	(8,104)	(4,353)
Net cash flows used in investing activities	(40,687)	(14,821)
Cash flows from (used in) financing activities:		
Cash dividends	(51,291)	(21,884)
Payment of lease liabilities	(9,928)	-
Net cash flows used in financing activities	(61,219)	(21,884)
Net increase in cash and cash equivalents	30,657	44,374
Cash and cash equivalents at beginning of year	267,989	223,615
Cash and cash equivalents at end of year	\$ 298,646	267,989

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(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

OTSUKA INFORMATION TECHNOLOGY CORP.

Notes to the Parent Company Only Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

OTSUKA INFORMATION TECHNOLOGY CORP. (“the Company”) was incorporated on August 4, 1995 in accordance with the Company Act. The Investment Commission, Ministry of Economic Affairs permits the foreign stockholders to invest the Company in accordance with the Statute for Investment by Foreign Nationals. The address of the Company’ s registered office is 6F., No. 68, Sec. 2, Sianmin Blvd., Banqiao Dist., New Taipei City. The major business activities of the Company are designing, trading, maintaining, import and export the hardware, software, computers, network and accessories.

The Company’ s common shares were listed on the Taipei Exchange (“TPEX”) on October 23, 2008.

(2) Approval date and procedures of the financial statements:

The parent company only financial statements were authorized for issuance by the board of directors on March 16, 2020.

(3) New standards and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019. The related new standards, interpretations and amendments are as follows (In addition, based on the announcement issued by the FSC on December 12, 2017, the Company can, and therefore, elected to early adopt the amendments to IFRS 9 “Prepayment features with negative compensation”):

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

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

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

(i) IFRS 16 “Leases”

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

The Company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

1) Definition of a lease

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

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

2) As a lessee

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

The Company decided to apply recognition exemptions to short-term leases of parking lots and others.

● Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’ s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’ s incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

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

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

3) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$39,479 thousand of right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2%.

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's parent company only financial statements	\$ 41,275
Recognition exemption for:	
Short-term leases	(109)
	\$ 41,166
Discounted using the incremental borrowing rate at January 1, 2019 (as well as lease liabilities recognized at January 1, 2019)	\$ 39,479

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

- (b) The impact of IFRS endorsed by FSC but not yet effective

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

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

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its parent company only financial statements.

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

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

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

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the parent company only financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the parent company only financial statements.

- (a) Statement of compliance

These annual parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“ the Regulations”).

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except the defined benefit liabilities (assets) are recognized as plan assets less the present value of the defined benefit obligation, the parent company only financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

The functional currency is determined based on the primary economic environment in which the Company operates. The Company's parent company only financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Foreign currencies

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Foreign currency differences are recognized in other comprehensive income.

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to noncontrolling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

(d) Classification of current and non current assets and liabilities

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

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

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

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

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

(f) Financial instruments

Account receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A account receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets classified as the same categories are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost and fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through profit or loss (FVTPL)

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

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

3) Impairment of financial assets

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

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

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

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

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

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 1 year past due.

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

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-method and includes expenditure incurred in other costs incurred in bringing them to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

(h) Investments in subsidiaries

Investments in subsidiaries are accounted for using the equity method. There is no difference between net income and comprehensive income in the Company's parent company only financial statements and net income and comprehensive income attributable to stockholders of the parent. The equity in the Company's parent company only financial statements and the equity attributable to stockholders of the parent in the Company's consolidated financial statements are also the same.

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings: 10~50 years
- 2) Computers: 2 ~3 years
- 3) Office equipment: 2 ~ 5 years

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

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

(j) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how, and for what purpose, the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose, it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and nonlease components as a single lease component.

(ii) As a lessee

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

OTSUKA INFORMATION TECHNOLOGY CORP.
Notes to the Parent Company Only Financial Statements

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

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

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

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

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

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

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

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

The Company presents right-of-use assets that do not meet the definition of investment properties and lease liabilities as a separate line item respectively in the balance sheet.

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The Company has elected not to recognize right-of-use assets and lease liabilities for leases of parking lots that have short-term lease and leases of low-value asset. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Applicable before January 1, 2019

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating leases are not recognized in the Company's balance sheet.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight line basis over the term of the lease. Revenue from lease incentives received are recognized as reductions of lease expenses on a straight-line basis. Contingent rent is recognized as expense in the period in which it is incurred.

(k) Intangible assets

(i) Recognition and measurement

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

Computer Software	3 years
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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(l) Impairment — non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Revenue

Revenue from contracts with customers

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

(i) Sale of goods

The Company purchases and sells software products in the market and recognizes revenue when the goods are delivered to customers. A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

(ii) Rendering of services

The Company provides services such as installation of software, connection of systems and training. The related revenues are recognized when the Company has provided all services and has submitted the invoices to the customers.

Some contracts include multiple deliverables, such as software, installation of software, and training. In most cases, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation.

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(iii) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. If it is more than one year, the transaction price would be adjusted during the period to reflect the impact of the time value of money in accordance with.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability (assets), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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(o) Share based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(p) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or

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- 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(q) Earnings per share

The Company discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The basic earnings per share are calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise accrued employee remuneration.

(r) Operating segments

Please refer to the Company's consolidated financial statements for the years ended December 31, 2019 and 2018, for further details.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

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

Management continues to monitor the accounting estimates and assumptions. Management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments made in applying accounting policies that have significant effect on amounts recognized in the parent company only financial statements.

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

(a) Impairment of accounts receivable

The Company has estimated the loss allowance of accounts receivable that is based on the risk of a default occurring and the rate of expected credit loss. The Company has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs.

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(b) Valuation of inventory

As inventories are measured at the lower of cost or net realizable value, the Company estimates the amount due to inventories' obsolescence and unmarketable items at the reporting date and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 252	81
Checking and demand desposts	155,894	125,408
Time deposits	142,500	142,500
	<u>\$ 298,646</u>	<u>267,989</u>

As of December 31, 2019 and 2018, the Company had provided time deposits amounted to \$500 thousands as collateral and the deposit have been reclassified to other non-current assets.

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

(b) Financial assets measured at amortized cost

	December 31, 2019	December 31, 2018
Financial bond—current	\$ 10,000	-
Financial bond—non-current	20,000	10,000
	<u>\$ 30,000</u>	<u>10,000</u>

The Company has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

- (i) The Company purchased the six-year bonds of Bank of Panhsin in June 2014. The face value of the bond was \$10,000 thousands and its effective interest rate was 3%.
- (ii) The Company purchased the seven-year bonds of Bank of Panhsin in June 2019. The face value of the bond was \$20,000 thousands and its effective interest rate was 2.25%.
- (iii) As of December 31, 2019 and 2018, the Company did not provide any of the aforementioned bond as collateral.

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

The Company purchased mutual funds amounted to \$10,000 thousands and \$5,000 thousands in January and September 2018, respectively, and sold them in February and December 2018, respectively. The losses from disposal amounted to \$649 thousands were recognized as other gains or losses. As of December 31, 2018, the receivable of aforementioned transaction amounted to \$4,698 thousands was recognized as other receivables, and collected in January 2019.

- (d) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	\$ 25,361	52,241
Accounts receivable	230,938	204,726
	256,299	256,967
Less: allowance for doubtful accounts	(3,578)	(3,060)
Long-term notes and accounts receivable, net	(2,410)	(4,200)
	<u>\$ 250,311</u>	<u>249,707</u>

- (i) The Company did not provide any of the aforementioned notes and accounts receivable as collateral. The aforementioned notes and accounts receivable were not discounted because the due dates were less than a year. The book value is assumed to approximate the fair value.
- (ii) The amount of notes and accounts receivable from the installment sales were \$8,910 thousands and 12,023 thousands as of December 31, 2019 and 2018 respectively. The aforementioned receivables as of December 31, 2019 were expected to be recovered by \$6,500 thousands and \$2,410 thousands for the years ended December 31, 2020 and 2021, respectively. The aforementioned receivables as of December 31, 2018 were expected to be recovered by \$7,823 thousands and \$4,200 thousands for the years ended December 31, 2019 and 2020, respectively, and \$7,823 thousands were already recovered for the year ended December 31, 2019.
- (iii) The Company applies the simplified approach to provide for its ECL, the use of lifetime ECL provision for all notes and accounts receivables (including long-term). To measure the ECL, notes and accounts receivable have been grouped based on shared credit risk characteristics and customer' s ability to pay all the amounts due based on the terms of the contract as well as incorporated forward looking information. The ECL allowance provision analysis was as follows:

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	December 31, 2019		
	Carrying amounts of notes and accounts receivable (including long-term)	Lifetime weighted-avera ge ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 232,394	0%	-
Past due 0 to 60 days	19,222	0.5%~3%	146
Past due 61 to 210 days	1,879	7%~100%	628
Past due 211 to 360 days	2,183	30%~100%	2,183
More than 1 years past due	621	100%	621
	<u>\$ 256,299</u>		<u>3,578</u>

	December 31, 2018		
	Carrying amounts of notes and accounts receivable (including long-term)	Lifetime weighted-avera ge ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 238,863	0%	-
Past due 0 to 60 days	11,883	0.5%~3%	108
Past due 61 to 210 days	3,282	7%~40%	367
Past due 211 to 360 days	536	30%~80%	182
More than 1 years past due	2,403	100%	2,403
	<u>\$ 256,967</u>		<u>3,060</u>

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

	2019	2018
Balance at January 1	3,060	2,638
Impairment losses recognized	1,815	422
Amounts written off	(1,297)	-
Balance at December 31	<u>\$ 3,578</u>	<u>3,060</u>

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(e) Inventories

	December 31, 2019	December 31, 2018
Software	\$ 84,185	43,299
Hardware	72	1,634
	\$ 84,257	44,933

The Company recognized the following items as cost of goods sold:

	2019	2018
Losses and (gains) on obsolete inventories and inventory valuation	\$ 1,182	(2,649)
Loss on disposal of inventories	1,669	5,045
Total	\$ 2,851	2,396

As of December 31, 2019 and 2018, the Company did not provide any of the aforementioned inventories as collateral.

(f) Investments accounted for using equity method

The Company's investments accounted for using the equity method at the reporting dates comprise:

	December 31, 2019	December 31, 2018
Subsidiaries	\$ 146,147	128,147

(i) Please refer to the Company's consolidated financial statements for the year ended December 31, 2019, for details of subsidiaries.

(ii) As of December 31, 2019 and 2018, the Company did not provide any of the aforementioned investments as collateral.

(g) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2019 and 2018, were as follows:

	Land	Buildings	Computers	Office equipment	Total
Cost:					
Balance on January 1, 2019	\$ 10,260	6,175	18,817	3,208	38,460
Additions	-	-	3,734	75	3,809
Disposals	-	-	(971)	(109)	(1,080)
Balance on December 31, 2019	\$ 10,260	6,175	21,580	3,174	41,189
Balance on January 1, 2018	\$ 10,260	6,175	14,290	2,986	33,711
Additions	-	-	4,897	226	5,123
Disposals	-	-	(370)	(4)	(374)
Balance on December 31, 2018	\$ 10,260	6,175	18,817	3,208	38,460

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	Land	Buildings	Computers	Office equipment	Total
Depreciation:					
Balance on January 1, 2019	\$ -	1,791	11,969	2,469	16,229
Depreciation	-	180	2,688	226	3,094
Disposals	-	-	(946)	(102)	(1,048)
Balance on December 31, 2019	<u>\$ -</u>	<u>1,971</u>	<u>13,711</u>	<u>2,593</u>	<u>18,275</u>
Balance on January 1, 2018	\$ -	1,597	9,963	2,115	13,675
Depreciation	-	194	2,375	358	2,927
Disposals	-	-	(369)	(4)	(373)
Balance on December 31, 2018	<u>\$ -</u>	<u>1,791</u>	<u>11,969</u>	<u>2,469</u>	<u>16,229</u>
Carrying amounts:					
Balance on December 31, 2019	<u>\$ 10,260</u>	<u>4,204</u>	<u>7,869</u>	<u>581</u>	<u>22,914</u>
Balance on December 31, 2018	<u>\$ 10,260</u>	<u>4,384</u>	<u>6,848</u>	<u>739</u>	<u>22,231</u>
Balance on January 1, 2018	<u>\$ 10,260</u>	<u>4,578</u>	<u>4,327</u>	<u>871</u>	<u>20,036</u>

As of December 31, 2019 and 2018, the Company did not provide any of the aforementioned property, plant and equipment as collateral.

(h) Right-of-use assets

The cost and depreciation of the building for which the Company lease as a lessee were presented below:

	<u>Buildings</u>
Cost:	
Balance on January 1, 2019	\$ -
Effects of retrospective application	39,479
Additions	<u>4,728</u>
Balance on December 31, 2019	<u><u>\$ 44,207</u></u>
Depreciation:	
Balance on January 1, 2019	\$ -
Depreciation	<u>10,462</u>
Balance on December 31, 2019	<u><u>\$ 10,462</u></u>
Carrying amount:	
Balance on December 31, 2019	<u><u>\$ 33,745</u></u>

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(i) Lease liabilities

Lease liabilities of the Company were as follows:

	December 31, 2019
Current	\$ 10,277
Non-current	\$ 24,002

For the maturities analysis, please refer to note 6(r).

The amount recognized in profit or loss were as follows:

	For the year ended December 31, 2019
Interest on lease liabilities	\$ 745
Expenses relating to short-term leases and leases of low-value assets	\$ 3,079

The amounts recognized in the statement of cash flows for the Company were as follows:

	For the year ended December 31, 2019
Rental paid in operating activities	\$ (3,079)
Interest on lease liabilities paid in operating activities	(745)
Payment made on lease liabilities in financing activities	(9,928)
Total cash outflow for leases	\$ (13,752)

As of December 31, 2019, the Company leases buildings for its office space and warehouse. The leases of office space typically run for a period of 2 to 5 years, and of warehouse for 2 years.

(j) Operating lease

The Company leases a few offices and parking lots under operating leases. Non-cancellable rentals payable of operating leases were as follows:

	December 31, 2018
Less than one year	\$ 10,277
Between one and five years	30,998
	\$ 41,275

The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Some of the lease payments are increased every two years to reflect market rentals.

For the year ended December 31, 2018, the Company recognized operating lease expenses of \$13,985 thousands, as expenses. There is no contingent rent in any of the operating lease contracts.

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(k) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and fair value adjustment of plan assets of the Company were as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ 29,445	20,851
Fair value of plan assets	24,007	21,322
Net defined benefit liability (asset)	\$ 5,438	(471)

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive payments based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$24,007 thousands at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Company for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Defined benefit obligation at January 1	\$ 20,851	20,943
Current service costs and interest expense	494	481
Remeasurement of net defined liability expense		
— Actuarial gain (loss) arising from experience adjustments	3,914	1,349
— Actuarial gain (loss) arising from financial assumptions	4,186	-
Benefits paid	-	(1,922)
Defined benefit obligation at December 31	\$ 29,445	20,851

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3) Movements in the fair value of plan assets

The movements in the fair value of plan assets for the Company for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets at January 1	\$ 21,322	20,730
Contributions paid by the employer	1,717	1,659
Interest income	392	373
Remeasurement of net defined asset		
— Return on plan assets (excluding interest income)	576	482
Benefits paid	-	(1,922)
Fair value of plan assets at December 31	<u><u>\$ 24,007</u></u>	<u><u>21,322</u></u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Current service costs	\$ 129	123
Net interest of net liabilities (asset) for defined benefit	(27)	(15)
	<u><u>\$ 102</u></u>	<u><u>108</u></u>
Selling expenses	\$ 83	88
Administrative expenses	14	14
Research and development expenses	5	6
	<u><u>\$ 102</u></u>	<u><u>108</u></u>

5) Remeasurement of the net defined benefit liabilities (asset) recognized in other comprehensive income

As of December 31, 2019 and 2018, the Company's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income were as follows:

	<u>2019</u>	<u>2018</u>
Cumulated amount at January 1	\$ (5,629)	(6,496)
Recognized during the period	7,525	867
Cumulated amount at December 31	<u><u>\$ 1,896</u></u>	<u><u>(5,629)</u></u>

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6) Actuarial assumptions

The following are the Company's principal actuarial assumptions:

	<u>2019</u>	<u>2018</u>
Discount rate	1.50 %	1.75 %
Future salary increase rate	4.00 %	3.00 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one year period after the reporting date was \$2,587 thousands.

The weighted average duration of the defined benefit plans is 6.6 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligations as of December 31, 2019 and 2018, would have been as follows:

		Influence of defined benefit obligations	
		<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
Discount rate:			
December 31, 2019	\$	<u>(905)</u>	<u>947</u>
December 31, 2018	\$	<u>(620)</u>	<u>649</u>
		Influence of defined benefit obligations	
		<u>Increased 1%</u>	<u>Decreased 1%</u>
Future salary increase rate:			
December 31, 2019	\$	<u>3,653</u>	<u>(3,152)</u>
December 31, 2018	\$	<u>2,550</u>	<u>(2,184)</u>

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

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

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(ii) Defined contribution plans

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

The Company recognized pension costs under the defined contribution method amounted to \$5,804 thousands and \$5,436 thousands for the years ended December 31, 2019 and 2018, respectively.

(l) Income taxes

(i) Income tax expense

The components of income tax expenses for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Current tax expense	\$ 30,172	15,363
Deferred tax expense	2,711	3,034
Income tax expense	<u>\$ 32,883</u>	<u>18,397</u>

(ii) The amounts of income tax benefit recognized in other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Exchange differences on translation operations' financial statements	<u>\$ (943)</u>	<u>(799)</u>

(iii) Reconciliation of income tax expense and profit before tax for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Profit before income tax	\$ 176,009	92,642
Income tax using the Company's domestic tax rate	35,202	18,528
Adjustment in income tax rate	-	(541)
Change in provision in prior periods	(3,279)	6
10% surtax on unappropriated earnings	627	181
Others	333	223
	<u>\$ 32,883</u>	<u>18,397</u>

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(iv) Deferred tax assets and liabilities

There are no unrecognized deferred tax assets and liabilities. Change in the amount of deferred tax assets and liabilities for the years ended December 31, 2019 and 2018, were as follows:

	Investment income of subsidiaries recognized under the equity method	Defined benefit obligations	Other	Total
Deferred tax liabilities:				
Balance on January 1, 2019	\$ 1,138	1,125	10	2,273
Recognized in profit or loss	2,065	323	(10)	2,378
Balance on December 31, 2019	\$ 3,203	1,448	-	4,651
Balance on January 1, 2018	\$ -	692	-	692
Recognized in profit or loss	1,138	433	10	1,581
Balance on December 31, 2018	\$ 1,138	1,125	10	2,273

	Investment income of subsidiaries recognized under the equity method	Share of other comprehensive income of subsidiaries recognized under the equity method	Loss on inventory valuation and obsolete inventories	Bad debt in excess of tax limit	Others	Total
Deferred tax assets:						
Balance on January 1, 2019	\$ -	(2,005)	(1,226)	(275)	(804)	(4,310)
Recognized in profit or loss	-	-	(236)	(109)	678	333
Recognized in other comprehensive income	-	(943)	-	-	-	(943)
Balance on December 31, 2019	\$ -	(2,948)	(1,462)	(384)	(126)	(4,920)
Balance on January 1, 2018	\$ (309)	(1,206)	(1,492)	(315)	(1,642)	(4,964)
Recognized in profit or loss	309	-	266	40	838	1,453
Recognized in other comprehensive income	-	(799)	-	-	-	(799)
Balance on December 31, 2018	\$ -	(2,005)	(1,226)	(275)	(804)	(4,310)

(v) The Company's income tax returns have been examined by the tax authority through the years up to 2017.

(m) Capital and other equity

(i) Capital

As of December 31, 2019 and 2018, the number of authorized ordinary shares both were 20,000 thousand shares with par value of \$10 (dollars) per share and amounted to \$200,000 thousands. As of the dates, 17,097 thousand shares of ordinary shares were issued and all issued ordinary shares were paid up upon issuance.

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(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2019	December 31, 2018
Additional paid-in capital	\$ 68,176	68,176
Employee stock options	637	637
	<u>\$ 68,813</u>	<u>68,813</u>

According to the amendment of ROC Company Act in January 2012, capital surplus can only be used to offset an accumulated deficit, and then the realized capital surplus can be distributed as stock dividends or cash dividends according to the stockholders' original percentage of ownership. The aforementioned realized capital surplus includes capital surplus resulting from premium upon the issuance of capital stock and donation gains. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the increase in capital by transferring the paid-in capital in excess of the par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

According to the articles of the Corporation, when allocating the earnings for each year, the Corporation shall first pay income taxes, and offset its prior years' deficits, if any. Of the remaining balance, 10% is to be appropriated as legal reserve, until the accumulated legal reserve has equaled the total capital of the Corporation; then set aside a special reserve in accordance with the relevant laws when necessary. The balance of the earnings shall combined into an aggregate amount of undistributed earnings, which shall become the aggregate distributable earnings to be distributed by the directors' distribution proposals and the resolution at the stockholders' meeting.

The Company shall consider the demand for expanding the scale of corporation, cash-flow, retained earnings, flexibility of business operation, and strength of competition to distribute dividend. The dividend distributed by directors' meeting shall not be less than 20% of the net amount of the annual profit after deducting the reserve retained in accordance with the laws while cash dividend shall not be less than 10% of the distributed dividend. The rate of cash dividend could be adjusted by the stockholders' meeting in accordance with the actual profit in the year and demand of cash-flow in the future.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a stockholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash to shareholders, and only the portion of the legal reserve which exceeds 25% of capital may be distributed.

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2) Special reserve

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

3) Earnings distribution

On June 24, 2019, and June 15, 2018, the stockholders' meeting resolved the distribution of earnings for 2018 and 2017, respectively. The distribution was \$3.00 (dollars) and \$1.28 (dollars) per share, which amounted to \$51,291 thousands and \$21,884 thousands, respectively. Information can be accessed in the Market Observation Post System website.

(n) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2019 and 2018, based on the profit and the weighted-average number of ordinary shares outstanding was as follows:

	<u>2019</u>	<u>2018</u>
Profit attributable to owners of parent	<u>\$ 143,126</u>	<u>74,245</u>
	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares (thousand shares)	<u>17,097</u>	<u>17,097</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2019 and 2018, based on the profit and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares was as follows:

	<u>2019</u>	<u>2018</u>
Profit attributable to owners of parent (diluted)	<u>\$ 143,126</u>	<u>74,245</u>
	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares (basic) (thousand shares)	17,097	17,097
Effect of employee remuneration	123	116
Weighted average number of ordinary shares (diluted) (thousand shares)	<u>17,220</u>	<u>17,213</u>

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(o) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2019</u>	<u>2018</u>
Primary geographical markets:		
Taiwan	<u><u>\$ 1,091,288</u></u>	<u><u>824,099</u></u>
Major products:		
CAD	\$ 735,870	475,938
Subscription contracts	144,379	141,693
Service	80,891	77,043
3D Animation	31,062	32,796
Other	99,086	96,629
	<u><u>\$ 1,091,288</u></u>	<u><u>824,099</u></u>

(ii) Contract balances

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Notes and accounts receivable (including long-term)	\$ 256,299	256,967	168,052
Less: allowance for impairment	(3,578)	(3,060)	(2,638)
Total	<u><u>\$ 252,721</u></u>	<u><u>253,907</u></u>	<u><u>165,414</u></u>

For details on notes, accounts receivable (including long-term) and allowance for impairment, please refer to note 6(d).

(p) Employee directors' and supervisors' remuneration

Based on the Company's articles of incorporation, more than 5% of annual profit should be appropriated as employee remuneration. The board of directors will adopt a resolution on whether the distribution is paid in cash or stock. Qualified employees, including the employees of subsidiaries of the Company meeting certain specific requirements, are entitled to receive their remuneration specified by the board of directors. The annual profit aforementioned may also be appropriated as directors' and supervisors' remuneration through the board's resolution, wherein the amount should not exceed 3% of annual profit. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficits.

For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to \$9,412 thousands and \$4,954 thousands, and directors' and supervisors' remuneration amounting to \$2,824 thousands and \$1,486 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating expenses during 2019 and 2018. The amounts, as stated in the parent company only financial statements, are identical to those of the actual

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distributions for 2019 and 2018.

(q) Other gains and losses

The details of other gains and losses for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Foreign exchange (losses) gains	\$ (24)	377
Other	97	(681)
	<u>\$ 73</u>	<u>(304)</u>

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2019 and 2018, the maximum amount exposed to credit risk amounted to \$591,511 thousands and \$541,856 thousands, respectively.

2) Concentration of credit risk

Since the Company has a lot of customers, it does not trade with single customer and market areas are diversified. The Company periodically evaluates these customers' financial position and the possibility of recovery of notes and accounts receivable to lower credit risk, collaterals will be requested from the customers if necessary.

3) For credit risk exposure of notes and accounts receivable (including long-term), please refer to note 6(d).

4) The exposure to credit risk for the financial assets at amortized cost are measured and monitored by the Company's finance department. The Company only deals with banks with good credit rating. The Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-5 years
December 31, 2019					
Accounts payable	\$ 82,738	82,738	82,738	-	-
Lease liabilities	34,279	35,462	10,869	10,866	13,727
Other financial liabilities	12,642	12,642	12,642	-	-
	<u>\$ 129,659</u>	<u>130,842</u>	<u>106,249</u>	<u>10,866</u>	<u>13,727</u>

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	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-5 years
December 31, 2018					
Accounts payable	\$ 96,891	96,891	96,891	-	-
Other financial liabilities	9,670	9,670	9,670	-	-
	\$ 106,561	106,561	106,561	-	-

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) **Currency risk**

1) **Exposure to foreign currency risk**

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

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items-USD	\$ 127	30.10	3,812	248	30.73	7,608
Financial liabilities						
Monetary items-USD	1	30.10	18	17	30.73	525

2) **Sensitivity analysis**

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents and accounts payable that are denominated in foreign currency. A weakening (strengthening) of 5% of the TWD against the USD as of December 31, 2019 and 2018, would have increased or decreased the profit after tax by \$152 thousands and \$283 thousands for the years ended December 31, 2019 and 2018, respectively. The analysis is performed on the same basis for both periods.

3) **Foreign exchange gain or loss on monetary items**

The information on the amount of the Company's foreign exchange gain or loss on monetary items (including realized and unrealized) translated to the functional currency, and on the exchange rate translated to the functional currency of the parent company (the presentation currency), TWD, was as follows:

	2019		2018	
Functional currencies	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
TWD	\$ (24)	1	377	1

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(iv) Interest rate analysis

The Company's financial assets with floating-rate were bank deposits and there were no financial liabilities with floating-rate. The Company believes that the cash flow risk arising from the fluctuation in interest rates was not significant and the sensitivity analysis of interest rate was not required.

(v) Fair value

Kinds of financial instruments and fair value

The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value and lease liabilities, disclosure of fair value information is not required.

		December 31, 2019				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:						
Financial bond	\$	30,000				
Cash and cash equivalents		298,646				
Notes and accounts receivable (including long-term)		252,721				
Refundable deposits		9,644				
Other non-current assets		<u>500</u>				
Total		<u><u>\$ 591,511</u></u>				
Financial liabilities measured at amortized cost:						
Accounts payable	\$	82,738				
Salaries payable, accrued expenses payable and other payables		97,736				
Lease liabilities		<u>34,279</u>				
Total		<u><u>\$ 214,753</u></u>				

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		December 31, 2018				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:						
Financial bond	\$	10,000				
Cash and cash equivalents		267,989				
Notes and accounts receivable (including long-term)		253,907				
Other receivables		5,041				
Refundable deposits		4,419				
Other non-current assets		<u>500</u>				
Total	\$	<u><u>541,856</u></u>				
Financial liabilities measured at amortized cost:						
Accounts payable	\$	96,891				
Salaries payable, accrued expenses payable and other payables		<u>66,607</u>				
Total	\$	<u><u>163,498</u></u>				

(s) Financial risk management

(i) Overview

The Company has exposure to the following risks arising from financial instruments:

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

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

(ii) Structure of risk management

The financial management department of the Company provides services for each business, including helping businesses to operate in the domestic and international financial markets, and supervising and managing the financial risks of the Company related to the operation by analyzing the internal risk report in accordance with the degree and extent of risk. Internal auditors continue to review policy compliance and risk limits.

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(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Company' s cash and cash equivalents; receivables; and bonds.

1) Notes, accounts and other receivables

The Company has established a credit policy and is required to transact with corporations having high credit ratings. The Company uses external credit rating systems and previous transaction records to assess the credit quality and set the credit limits for the customer. The Company constantly supervises credit exposures and credit limits of transaction partners, and controls credit exposures through setting the credit limits.

2) Investment

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Company' s finance department. The Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

(iv) Liquidity risk

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

(v) Market risk

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

1) Currency risk

The Company is exposed to currency risk on bank desposites that are denominated in a currency other than the respective functional currencies of the Company' s entities. The bank desposites are denominated in USD. The Company believes the cash flow risk arising from the fluctuation in exchange rates is not significant.

2) Interest rate risk

The Company' s main assets with a floating interest rate basis are bank deposits. The Company believes that cash flow risk arising from the fluctuation in interest rates is not significant.

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(t) Capital Management

The Company's capital management policy is to maintain a strong capital base and appropriate debt ratio so as to maintain investor, creditor, and market confidence to sustain the future development of the business.

As of December 31, 2019 and 2018, the debt ratios were 26% and 23%, respectively. There were no changes in the Company's approach to capital management as of December 31, 2019.

(u) Investing and financing activities not affecting current cash flow

The Company's investing and financing activities which did not affect the current cash flow in the year ended December 31, 2019, were as follows:

(i) For acquisition of right-of-use asset by leasing, please refer to notes 6(h) and (i).

(ii) Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Acquisition	Cash flows	Non-cash change	December 31, 2019
Lease liabilities (Amount of total liabilities from financing activities)	\$ 39,479	4,728	(9,928)	-	34,279

(7) Related-party transactions:

(a) Names and relationship of the related parties

The followings is related party that has had transactions with the Company during the periods covered in the parent company only financial statements.

Name	Relationship
Otsuka Information Technology Ltd. (Otsuka Information)	A subsidiary
To Gather Corp. (To Gather)	A subsidiary
Otsuka Software Trading (Dongguan) Ltd. (Otsuka Dongguan)	A subsidiary
Otsuka OITC Information Technology (Shanghai) Ltd. (OITC)	A subsidiary

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(b) Significant transactions with related parties

(i) Purchases

The amounts of purchases by the Company to related parties and the outstanding balances were as follows:

	Purchases		Accounts payable	
	2019	2018	December 31, 2019	December 31, 2018
Subsidiaries	\$ 664	-	-	-

The payment terms of related parties and other vendors were 30 days and 30 to 60 days, respectively. There were no significant differences in the selling price and other trading terms between related parties and other vendors.

(ii) Operating expenses — other

The amounts of operating expenses paid to related parties by the Company and the outstanding balances were as follows:

	Operating expenses		Accounts payable	
	2019	2018	December 31, 2019	December 31, 2018
Subsidiaries	\$ 27	-	-	-

(iii) Guarantee

The amounts of guarantees by the Company, provided to related parties were as follows:

	December 31, 2019	December 31, 2018
To Gather — Performance guarantee	\$ 10,000	-

(c) Key management personnel compensation

Key management personnel compensation comprised:

	2019	2018
Short term employee benefits	\$ 20,200	10,038
Termination benefits	178	138
Post employment benefits	-	-
Other long term benefits	-	-
Share based payments	-	-
	\$ 20,378	10,176

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(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2019	December 31, 2018
Other non-current assets — restricted deposit	line of corporate credit card	<u>\$ 500</u>	<u>500</u>

(9) Significant commitments and contingencies:

- (a) For the detail of the Company's guarantees provided to subsidiaries, please refer to notes 7 and 13.
- (b) Guarantee notes provided as part of agreements and line of forward exchange were as follows:

	December 31, 2019	December 31, 2018
Guaranteed notes	<u>\$ 19,628</u>	<u>19,628</u>

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By item	By function	2019			2018		
		Cost of Sale	Operating Expense	Total	Cost of Sale	Operating Expense	Total
Employee benefits							
Salary		-	163,598	163,598	-	138,782	138,782
Labor and health insurance		-	11,185	11,185	-	10,161	10,161
Pension		-	5,906	5,906	-	5,544	5,544
Remuneration of directors		-	3,344	3,344	-	2,699	2,699
Others		-	6,270	6,270	-	5,796	5,796
Depreciation		-	13,556	13,556	-	2,927	2,927
Amortization		-	3,058	3,058	-	2,493	2,493

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The following were the additional information on the Company's employees and employee benefits for the years ended December 31, 2019 and 2018:

	2019	2018
Average numbers of employees	<u>149</u>	<u>146</u>
Numbers of directors, but not employees concurrently	<u>5</u>	<u>5</u>
The average employee benefit	<u>\$ 1,298</u>	<u>1,137</u>
The average salaries and wages	<u>\$ 1,136</u>	<u>984</u>
The average adjustment of salaries and wages	<u>15.45%</u>	

(13) Other disclosures:

(a) Information on significant transactions:

The followings were the information on significant transactions required to be disclosed by the Regulations for the Company:

(i) Loans to other parties:

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	The Company	To Gather Corp.	Other receivables	Y	10,000	10,000	-	-	Necessary to short-term loans to other parties	-	Operating capital	-	N	-	66,007	132,013
1	Otsuka Software Trading (Dongguan) Ltd.	Otsuka OITC Information Technology (Shanghai) Ltd.	Other receivables	Y	23,015	21,600	-	-	Necessary to short-term loans to other parties	-	Operating capital	-	N	-	51,817	74,025

Note1: The ending balance is the amount of loans to other parties were authorized by the board of directors.

Note2: The total amount of loans provided by the domestic subsidiaries to a company shall not exceed 10% of its net worth; and the total amount of loans to all companies shall not exceed 20% of their net worth.

Note3: The total amount of loans provided by the foreign subsidiaries to a company shall not exceed 70% of their net worth; and the total amount for loans to all companies shall not exceed their net total worth.

(ii) Guarantees and endorsements for other parties:

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company	To Gather Corp.	The Subsidiary of the Company	66,007	10,000	10,000	-	-	1.51%	264,026	Y	N	N

Note 1: The total amount of guarantee to a subsidiary, where the Company holds more than 90% of its shares, shall not exceed 20% of the Company's net worth; and the total amount of guarantee to other subsidiaries shall not exceed 10% of the Company's net worth. The total amount of the guarantee to all companies shall not exceed 40% of the Company's total worth.

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- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Company holding securities	Category and name of security	Relationship with company	Account title	Ending balance				
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Note
The Company	Financial Bond: FY2014 1st subordinated bond of Bank of Panhsin	None	Financial assets measured at amortized cost-current	-	10,000	- %	10,000	
"	FY2019 1st subordinated bond of Bank of Panhsin	None	Financial assets measured at amortized cost-non-current	-	20,000	- %	20,000	

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

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Otsuka Software Trading (Dongguan) Ltd.	Structured Investment Products	Financial Assets at Fair Value through Profit and Loss	-	-	-	-	-	93,954	-	94,738	93,954	784	-	-
Otsuka OITC Information Technology (Shanghai) Ltd.	"	"	-	-	-	-	-	62,636	-	63,158	62,636	522	-	-

- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None
- (ix) Trading in derivative instruments:None

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(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
The company	Otsuka Information Technology Ltd.	Hong Kong	Holding company	129,517	129,517	32,760	100.00%	133,757	10,321	10,321	
"	To Gather Corp.	Taiwan	Restaurant	13,500	-	1,350	90.00%	12,390	(1,234)	(1,110)	

(c) Information on investment in China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from January 1, 2018	Investment flows	Accumulated outflow of investment from Taiwan as of	Net income (losses)	Percentage of the investee	Investment of ownership	income (losses)	Accumulated remittance of	earnings in current period
					Outflow	Inflow	December 31, 2019				Book value	
Otsuka Software Trading (Dongguan) Ltd.	Software merchandising	48,160 (US\$1,600 thousand)	Investing in China through the company incorporated in the third country	48,160 (US\$1,600 thousand)	-	-	48,160 (US\$1,600 thousand)	8,341	100.00%	8,341	74,025	100
Otsuka Software (Suzhou) Ltd.	Software merchandising	-	Investing in China through the company incorporated in the third country	48,160 (US\$1,600 thousand)	-	-	- (Note 2)	-	-%	-	-	-
Otsuka Information Technology (Shanghai) Ltd.	Software merchandising	78,260 (US\$1,000 thousand)	Investing in China through the company incorporated in the third country	30,100 (US\$1,000 thousand)	-	-	78,260 (US\$2,600 thousand) (Note 2)	1,980	100.00%	1,980	59,725	100

Note 1: The limited companies did not issue the shares.

Note 2: In January 2019, Otsuka Suzhou merged with OITC, with OITC being the surviving company and Otsuka Suzhou as the dissolved company.

(ii) Limitation on investment in China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
126,420 (USD4,200 thousand)	126,420 (USD4,200 thousand)	396,040

Note: The TWD amount was measured on December 31, 2019 with the spot exchange rate of 30.10.

The above investment income (losses) were based on the financial statements audited by the Company's auditors.

(iii) Significant transactions: None

(14) Segment information:

Please refer to the Company's consolidated financial statements for the year ended December 31, 2019, for details.

Otsuka Information Technology Corp.

Chairman Tsurumi Hironobu