

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following disclaimer applies to the offering memorandum following this page, and you are therefore advised to read this carefully before reading, accessing, or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them anytime you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must not be within the United States (within the meaning of Regulation S under the Securities Act). This offering memorandum is being sent at your request and by accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that you are not within the U.S., the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S. and that you consent to the delivery of such offering memorandum by electronic transmission, and that you are not a “U.S. person” within the meaning of Regulation S.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Yuanta Securities (Hong Kong) Company Limited (the “Manager”), the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar (as defined herein) or any person who controls any of them, or any of their respective affiliates, directors, officers, employees, representatives, advisers or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Manager.

CONFIDENTIAL

NOT FOR DISTRIBUTION IN THE UNITED STATES



AERKOMM INC.

(a Nevada corporation)

US\$10,000,000 CREDIT ENHANCED ZERO COUPON CONVERTIBLE BONDS DUE 2025

US\$200,000 7.5% CONVERTIBLE BONDS DUE 2025

Aerkomm Inc. will be issuing US\$10,000,000 in aggregate principal amount of Credit Enhanced Zero Coupon Convertible Bond due 2025 (the “Credit Enhanced Bonds”) and US\$200,000 in aggregate principal amount of 7.5% convertible bonds due 2025 (the “Coupon Bonds”), and together with the Credited Enhanced Bonds, the “Bonds”). Payments of principal, premium, interest and any payments thereof in respect of the Credit Enhanced Bonds will have the benefit of a bank guarantee denominated in U.S. dollars and issued by Bank of Panhsin Co., Ltd. Unless previously redeemed, converted or repurchased and canceled, the Credit Enhanced Bonds will be redeemed on December 2, 2025 at 105.11% of their principal amount and the Coupon Bonds will be redeemed on December 2, 2025 at 100% of their principal amount plus any accrued and unpaid interest. The Coupon Bonds will bear interest from and including December 2, 2020 at the rate of 7.5% per annum. Interest on the Coupon Bonds is payable semi-annually in arrears on June 1 and December 1 each year (each, an “Interest Payment Date”), commencing on June 1, 2021.

Unless previously redeemed, converted or repurchased and cancelled, the Bonds may be converted at any time on or after December 3, 2020 up to November 20, 2025 (the “Conversion Period”) into shares of Common Stock of our Company with a par value US\$0.001 each (such shares of Common Stock, the “Conversion Shares”), subject in all cases to applicable laws of the State of Nevada and French laws and regulations restricting the conversion of the Bonds during Book Closure Periods (as defined herein) and the conversion of the Bonds by certain holders. The initial conversion price for the Bonds is US\$13.30 per Conversion Share and is subject to adjustment in specified circumstances (the “Conversion Price”). See “Description of the Bonds – Conversion.” The Company’s Common Stock is quoted for trading on the OTC Markets Group Inc. OTCQX Best Market (“OTCQX Best Market”) under the symbol “AKOM” and on the Professional Segment of the regulated market of Euronext Paris (“Euronext Paris”) under the symbol “AKOM” denominated in Euros on Euronext Paris. The Conversion Shares will be listed and traded on Euronext Paris. The last reported Closing Price (as defined herein) of our Common Stock on Euronext Paris on November 26, 2020 was €7.45 per share and the exchange rate between U.S. dollar and Euro quoted by European Central Bank on November 26, 2020 was €1.00 = US\$1.19.

The Bonds will mature on December 2, 2025 (the “Maturity Date”). We have the option to redeem the Bonds at a redemption amount equal to the Early Redemption Amount (as defined herein) in the case of (i) and (iii) below or Early Redemption Premium Amount (as defined herein) in the case of (ii) below, as applicable, (i) in whole or in part, at any time on or after December 2, 2023 and prior to the Maturity Date, if the Closing Price (converted into U.S. dollars at the then prevailing exchange rate) of our Common Stock listed on the Euronext Paris for 20 trading days in any period of 30 consecutive trading days, the last day of which occurs not more than fifteen trading days prior to the date on which notice of such redemption is given, is greater than 130% of the Conversion Price on each applicable trading day or (ii) in whole or in part of the Bonds on the second anniversary of the Issue Date or (iii) where 90% or more in principal amount of the Bonds issued have been redeemed, converted or repurchased and cancelled. Holders of the Bonds may also require us to repurchase all or part of the Bonds on the third anniversary of the Issue Date, at the Early Redemption Amount. Unless the Bonds have been previously redeemed, converted or repurchased and canceled, Holders of the Bonds will also have the right to require us to repurchase the Bonds for cash at the Early Redemption Amount if an Event of Delisting (as defined herein) or a Change of Control (as defined herein) occurs. See “Description of the Bonds.”

Approval in-principle has been received for the listing and quotation of the Bonds on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed herein. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Offering, our Company, our subsidiaries or the Bonds. There is currently no public market for the Bonds.

This document is important and should be read carefully. Investors are advised to consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

Investing in the Bonds involves certain risks. See “Risk Factors” beginning on page 15.

The Bonds (and the Conversion Shares to be issued upon conversion thereof) have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and are exclusively being offered and sold pursuant to this offering memorandum (the “Offering Memorandum”) outside of the United States (“U.S.”) in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”). For a description of these and other restrictions on offers and sales of the Bonds (and the Conversion Shares to be issued upon conversion thereof), and distribution of this Offering Memorandum, see “Plan of Distribution” and “Transfer Restrictions”

Each of the Credit Enhanced Bonds and the Coupon Bonds will be represented by beneficial interests in respective permanent global certificates (the “Global Certificates”) in registered form, which will be registered in the name of a nominee for, and deposited on or about December 2, 2020, with a common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). Interests in the Global Certificates will be subject to certain restrictions on transfer for a period of six (6) months after the later of the commencement of this Offering and the latest closing date for this Offering. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. Except as described herein, certificates for the Bonds will not be issued in exchange for interest in the Global Certificates.

BOND ISSUE PRICE 100%

Sole Bookrunner and Sole Lead Manager



Yuanta Securities (Hong Kong) Company Limited

Offering Memorandum dated November 27, 2020

NOTICE TO INVESTORS

You should rely only on the information contained in this Offering Memorandum. We have not authorized anyone to provide you with different information. None of our Company, the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar (as defined herein) are making an offer of these securities in any jurisdiction where such an offer is not permitted.

This Offering Memorandum is strictly confidential and has been prepared by us solely for use in connection with the proposed offer of the Bonds (and Conversion Shares to be issued upon conversion of the Bonds) to eligible investors. Yuanta Securities (Hong Kong) Company Limited will act as initial purchaser with respect to the offering of the Bonds (the “Initial Purchaser”). This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire the Bonds (or the Conversion Shares to be issued upon conversion of the Bonds). Distribution of this Offering Memorandum to any person other than a prospective investor or any person retained to advise such prospective investor with respect thereto is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. By accepting delivery of this Offering Memorandum, each prospective investor agrees to the foregoing and agrees not to make photocopies of this Offering Memorandum or any documents referred to herein.

The information contained in this Offering Memorandum is current as of the date of this Offering Memorandum or such other date as otherwise indicated. The information herein is subject to change, completion or amendment without notice. Neither the delivery of this Offering Memorandum at any time nor the offer, sale or delivery of any of the Bonds (or the Conversion Shares to be issued upon conversion of the Bonds) shall, under any circumstances, constitute a representation or create any implication that there has been no change in the information set forth in this Offering Memorandum or in our affairs since the date of this Offering Memorandum or such other date as otherwise indicated, or that any information contained herein is correct as of any date subsequent to the date hereof or such other date as otherwise indicated. Unless otherwise indicated, you should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum or such other date as otherwise indicated.

No person has been authorized to give any information or to make any representation not contained in this Offering Memorandum in connection with this Offering, and, if given or made, such information or representation must not be relied upon as having been authorized by our Company, the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar (each as defined herein), or any other person.

We, having made all reasonable inquiries, confirm that this Offering Memorandum contains all information with respect to our Company and the Bonds (including the Conversion Shares to be issued upon conversion of the Bonds) that is material in the context of this Offering; that the information contained herein is true and accurate in all material respects; that the opinions and intentions expressed herein are honestly held, that we are not aware of any other facts the omission of which, in our reasonable opinion, may make this document as a whole or any of such information or the expression of any such opinions or intentions materially misleading and that all reasonable inquiries have been made by us to verify the accuracy of such information; provided that, this Offering Memorandum contains summaries that we believe to be accurate with respect to certain terms of some documents, but for complete information regarding the documents, you may obtain copies of the actual documents upon request to the Initial Purchaser or us. Although we believe that such sources are reliable, we take responsibility for only the accurate reproduction and extraction of such information and data and accept no other responsibility for such information, unless otherwise stated. None of the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any of their respective affiliates, directors, officers, employees, representatives, advisers or agents has independently verified the information in this Offering Memorandum or can give any assurance that this information is accurate or complete.

No U.S. federal, state, or foreign securities commission or regulating authority, nor AMF, has approved of, disapproved of or recommended the Bonds (including the Conversion Shares to be issued upon conversion of the Bonds), nor have any of the foregoing authorities reviewed, passed upon, determined or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary in this Offering Memorandum is a criminal offense in the U.S. and France and may be a criminal offense in other jurisdictions.

None of our Company, the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar, nor any of their respective affiliates, directors, officers, employees, representatives, advisers or agents, is making any representation to any purchasers of the Bonds regarding the legality of investment by such purchaser under applicable laws. In making an investment decision, you must rely on your own examination of this Offering Memorandum and the terms herein, including the merits and risks involved, and should not construe the contents of this Offering Memorandum as legal, business or tax advice. Each prospective investor should be aware that it may be required to bear the financial risks of an investment in the Bonds (including the Conversion Shares to be issued upon conversion of the Bonds) for an indefinite period of time, and should consult with its own advisors as to legal, tax, business, financial and related aspects of purchasing or acquiring the Bonds (including the Conversion Shares issuable upon conversion of the Bonds). By receiving this Offering Memorandum, you acknowledge that (i) you have been afforded an opportunity to request and review copies of the actual documents from us and to review, and have received, all information that you consider necessary to verify the accuracy of, or to supplement, the information contained in this Offering Memorandum; (ii) you have not relied on the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any person affiliated with the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar in connection with your investigation of the accuracy of any information in this Offering Memorandum or your investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning our Company or our shares other than as contained in this Offering Memorandum and, if given or made, any such other information or representation should not be relied upon as having been authorized by our Company, the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar.

This Offering Memorandum does not constitute an offer to sell, or an invitation by or on behalf of us or the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any of their respective affiliates or representatives to purchase, any of the Bonds (including the Conversion Shares to be issued upon conversion of the Bonds) and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. There are restrictions on the distribution of this Offering Memorandum and the making of solicitations pursuant thereto in certain jurisdictions, further details of which are set out under “*Plan of Distribution*” and “*Transfer Restrictions*.” Recipients of this Offering Memorandum are required to inform themselves about and observe any applicable restrictions.

The Bonds (including the Conversion Shares to be issued upon conversion of the Bonds) have not been, and will not be, registered under the Securities Act, or any U.S. state securities laws and, unless so registered, may not be offered, sold or delivered within the U.S. except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. This Offering is being made only outside the U.S. in offshore transactions in reliance on Regulation S. Each purchaser of the Bonds in making its purchase will be required to make, or will be deemed to have made, certain acknowledgments, representations, and agreements. For a description of these and certain further restrictions on offers, sales, and transfers of the Bonds (or the Conversion Shares to be issued upon conversion of the Bonds) and distribution of this Offering Memorandum, see “*Plan of Distribution*” and “*Transfer Restrictions*.”

Each prospective investor must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the shares or possesses or distributes this Offering Memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Bonds (or the Conversion Shares to be issued upon conversion of the Bonds) under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of our Company, the Initial Purchaser, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar nor any of their respective representatives shall have any responsibility therefor.

We reserve the right to withdraw this Offering at any time and, together with the Initial Purchaser, reserve the right to reject any commitment to purchase the Bonds, in whole or in part. We also reserve the right to allocate to you less than the full amount of the Bonds sought by you. The Initial Purchaser and certain related entities may acquire for their own account a portion of the Bonds.

In connection with the issue and distribution of the Bonds, the Initial Purchaser or any person acting for it may, subject to applicable law, over-allot or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period of time. However, the

Initial Purchaser or any person acting for it is under no obligation to do so. Furthermore, such stabilization, if commenced, may be discontinued at any time and must be brought to an end after a limited period of time.

Section 309B(1) Notification - In connection with Section 309B of the Securities and Futures Act, Chapter 289 of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 (the “CMP Regulations 2018”), we have determined, and hereby notify all persons (including relevant persons (as defined in Section 309A(1) of the SFA)) that the Bonds are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains “forward-looking” statements. All statements other than statements of historical fact contained in this Offering Memorandum including, without limitation, estimates, projections, future financial position, operation results, strategies, plans, objectives, goals, targets, and future developments in the markets in which we participate or are seeking to participate in, are forward-looking statements. These forward-looking statements generally are identified by the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “strategy,” “could,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar words or expressions. Additionally, statements relating to the implementation of business strategies, future financial performance, acquisition strategies, capital raising transactions, the performance of contractual obligations and similar statements may contain forward-looking statements. The future events referred to in these forward-looking statements involve known and unknown risks, uncertainties, and other factors, some of which are beyond the control of our Company and that may cause our actual results, performance, achievements, or industry results to be materially different from any future results, performance, achievements, or industry results expressed or implied by the forward-looking statements.

Forward-looking statements are based on current expectations and assumptions that are subject to significant risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain.

Important factors that could cause the actual results, performance, achievements, or industry results to differ materially from those in the forward-looking statements include, among others things, the following:

- acceptance of our services by airline passengers;
- our ability to introduce new products and/or services to meet our airline partners’ needs;
- the loss of any of our key customers;
- factors affecting the timely delivery and supply of key components of our hardware;
- global economic, social and political conditions;
- the impact and effects of the global outbreak and continuation of the COVID-19 pandemic;
- factors affecting the commercial airline industry and our key customers;
- uncertainties in airline partner demand for our equipments and services;
- exchange and other exchange-related controls;
- regulations of U.S. and foreign government agencies;
- legal proceedings; and
- other risks, uncertainties, and factors set forth under “*Risk Factors*.”

When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. We are not obligated to update or revise any of these statements, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one out of the many possible scenarios and therefore should not be viewed as the most probable or standard scenario. Accordingly, you should not place undue reliance on any forward-looking statement.

CONVENTIONS AND DEFINITIONS

In this Offering Memorandum, all references to:

- “Aerkomm,” “Issuer,” “Company,” “we,” “us,” “our,” or “our company,” refer to Aerkomm Inc. a Nevada corporation, and its consolidated subsidiaries, as the context may require;
- “Aerkomm Malta” are to Aerkomm Pacific Limited, a Malta company and wholly owned subsidiary of Aircom Seychelles;
- “Aerkomm Taiwan” are to Aerkomm Taiwan Inc., a Taiwanese company and wholly-owned subsidiary of our company;
- “Aircom” are to Aircom Pacific, Inc., a California corporation and wholly-owned subsidiary of our company;
- “Aircom Seychelles” are to Aircom Pacific Ltd., a Republic of Seychelles company and wholly-owned subsidiary of Aircom;
- “Aircom HK” are to Aircom Pacific Inc. Limited, a Hong Kong company and wholly-owned subsidiary of Aircom;
- “Aircom Japan” are to Aircom Japan, Inc., a Japanese company and wholly-owned subsidiary of Aircom;
- “Aircom Taiwan” are to Aircom Telecom LLC, a Taiwanese company and wholly-owned subsidiary of Aircom; and
- “Aircom Beijing” are to Beijing Yatai Communication Co., Ltd., a Chinese company and wholly-owned subsidiary of Aerkomm Taiwan.

Unless otherwise specified or the context otherwise requires, in this Offering Memorandum, the references to “Shares” and “Common Stock” refer to our shares of Common Stock of par value US\$0.001 each; all references to “Bondholders” or to “holders of the Bonds” refer to holders of the Bonds from time to time; the references herein to “Taiwan,” the “ROC,” and the “Republic of China” refer to the island of Taiwan and other areas under the effective control of the Republic of China (Taiwan); all references to “OTCQX Best Market” refer to the OTC Markets Group Inc. OTCQX Best Market; all references to “Euronext Paris” refer to Professional Segment of the regulated market of Euronext Paris; all references to “AMF” refer to the Autorité des marchés financiers of France. All references to “SEC” refer to the U.S. Securities and Exchange Commission. All references to “Securities Act” refers to the Securities Act of 1933, as amended. All references to “Exchange Act” refers to the Securities Exchange Act of 1934, as amended; all references to “€”, “Euro” or “euro” are to the single currency of the participating member states of the European Union which was introduced on January 1, 1999; references to “\$”, “US\$”, “U.S. Dollars” are to the lawful currency of the United States; and references to “NT\$” or “N.T. dollars” are to the lawful currency of the ROC. All references to “U.S.” refer to the United States of America.

PRESENTATION OF FINANCIAL INFORMATION

The Company’s audited consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020 included herein have been prepared and presented in accordance with the United States generally accepted accounting principles (“U.S. GAAP”). All such financial data should be read in conjunction with, and are qualified in their entirety by reference to, the financial statements included elsewhere in this Offering Memorandum, including the Bonds thereto. Our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 have been audited by Chen & Fan Accountancy Corporation as indicated in our independent auditors’ report included in this Offering Memorandum. Our consolidated financial statement as of and for the nine months ended September 30,

2019 and 2020 have been reviewed by Chen & Fan Accountancy Corporation as indicated in our independent auditors' review report included in this Offering Memorandum.

Rounding adjustments have been made in calculating some of the financial information included in this Offering Memorandum. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

MARKET AND INDUSTRY INFORMATION

This Offering Memorandum includes market share and industry data and forecasts that we have obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources we believe to be reliable, but there can be no assurance as to the accuracy or completeness of the included information. While we have taken reasonable actions to ensure that the information is extracted accurately and in its proper context, the Initial Purchaser and we have not independently verified any of the data from third-party sources or ascertained the underlying economic assumptions relied upon by such sources.

ENFORCEABILITY OF FOREIGN JUDGMENTS

Although we are incorporated in the State of Nevada, a majority of our directors and executive officers named in this Offering Memorandum are residents of the U.S. and a significant amount of our assets are located in the ROC. As a result, it may not be possible for you to effect service of process upon our company or these persons outside of the U.S., or to enforce any judgments obtained in courts outside of the ROC against them, including those predicated upon the civil liability provisions of the securities laws of the U.S. or any state or territory within the U.S.

We have been advised by Johnson & Partners, Attorneys-at-Law, our ROC counsel, that any final judgment obtained against us or our directors, executive officers and experts named in this Offering Memorandum in any court other than the ROC courts with respect to any legal suit or proceeding arising out of or relating to the Bonds or the shares will be recognized by the ROC courts without further review of the merits only if the ROC court in which enforcement is sought and is satisfied that:

- (i) the court rendering the judgment has jurisdiction over the subject matter according to ROC law;
- (ii) the judgment and the court procedure resulting in the judgment are not contrary to the public order or good morals of the ROC;
- (iii) if the judgment was rendered by default, the Company or such person was duly served in the jurisdiction of such court within a reasonable period of time in accordance with the laws and regulations of such jurisdiction or process was served on the Company or such person with the judicial assistance of the ROC; and
- (iv) judgments of the ROC courts have been or are recognized by the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of the Republic of China (the "CBC") for the outward remittance from the ROC of any amounts recovered with respect to such judgment denominated in a currency other than N.T. dollars.

TABLE OF CONTENTS

SUMMARY	1
THE OFFERING	10
RISK FACTORS	15
USE OF PROCEEDS	38
CAPITALIZATION AND INDEBTEDNESS	39
SELECTED CONSOLIDATED FINANCIAL DATA	40
BUSINESS	43
MANAGEMENT	71
THE BANK GUARANTEE	78
DESCRIPTION OF BG BANK	80
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	82
RELATED-PARTY TRANSACTIONS	84
DIVIDEND POLICY	87
DESCRIPTION OF THE BONDS	88
SUMMARY OF PROVISIONS RELATING TO THE BONDS IN THE GLOBAL CERTIFICATE	122
DESCRIPTION OF OUR SHARE CAPITAL	124
TAXATION	126
PLAN OF DISTRIBUTION	130
TRANSFER RESTRICTIONS	133
LEGAL MATTERS	135
INDEPENDENT AUDITORS	136
GENERAL INFORMATION	137
 INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS	 F-1
AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018	 F-2
AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019	 F-26
REVIEWED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2020	 F-51
AUDITED FINANCIAL STATEMENTS OF THE BG BANK AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019	 F-75

SUMMARY

The summary below is qualified in its entirety by, and is subject to, the more detailed information set out or referred to elsewhere in this Offering Memorandum, including the financial information herein. Prospective purchasers should read this Offering Memorandum in its entirety and should carefully consider the information set forth in “Risk Factors” in particular. Prospective purchasers should also carefully review the financial statements included in this Offering Memorandum prior to making an investment decision with respect to the Bonds. To understand the terms of the Bonds and our Shares, prospective purchasers should carefully read the sections of this Offering Memorandum entitled “Description of the Bonds” and “Description of our Share Capital.”

Business Overview

The Effect of the COVID-19 Pandemic on Our Business

Our business discussion takes into account, to the extent possible, the impact of the COVID-19 coronavirus on our industry and markets. We cannot at this time estimate or quantify the medium and long-term impact and effect of the coronavirus and there can be no certainty with respect to any of our business and marketing expectations and plans. We expect that, at least in the short term, the coronavirus could have a negative impact on our ability to successfully market our in-flight entertainment and connectivity, or IFEC, products and on the timing of the market introduction of our in-flight entertainment and connectivity product offerings, although the grounding of aircraft fleets could also work to our advantage, with aircraft more readily accessible for the retrofitting of our AERKOMM K++ IFEC system solution. Additionally, we do not expect that the COVID-19 pandemic will have a material adverse effect on our results of operations in 2020, in view of the fact that we are a development stage company that has not yet established any recurring operating revenue or operational cost streams that would be affected by the impact of the COVID-19 pandemic. See our discussion of the coronavirus in the “Risk Factors” and “Business” sections of this Offering Memorandum.

Until the onset of the COVID-19 pandemic, demand for high-speed internet connectivity on board passenger aircraft had been increasing worldwide¹. Although the drastic reduction in international air traffic and the related grounding of airline fleets has made pre-COVID-19 market projections no longer accurate, we expect that as the impact of COVID-19 pandemic lessens in time, whether through the introduction of a coronavirus vaccine or otherwise, our IFEC product offerings will begin to find acceptance in the industry.

IFEC - In-Flight Entertainment and Connectivity System

With our IFEC technologies and our innovative business model, we plan to provide airline passengers with a broadband in-flight experience that encompasses a wide range of service options. Such options will include Wi-Fi, cellular, movies, gaming, live TV and music. We plan to offer these core services through both built-in in-flight entertainment systems, such as a seat-back display, as well as through passengers’ personal devices including laptops, mobile telephones and tablets. We will also provide content management services and e-commerce solutions related to our IFEC solutions. Our IFEC system will operate through third party owned Ka-band high throughput satellites, or HTSs.

We also plan to provide related content management services and on-board e-commerce solutions for commercial airlines and corporate business jets.

We have two business models in place for our IFEC aviation solutions, one for commercial airlines and one for corporate business jets.

To market our IFEC solutions, we plan to:

- Partner with commercial airlines to offer them our IFEC equipment at no cost, providing to the airlines and their passengers free connectivity services. In this model, we expect to generate revenue through advertising and in-flight passenger transactions (as discussed in detail below). We believe

¹ For (pre-COVID-19) projected industry growth information, see Grand View Research, In-flight Entertainment & Connectivity Market Analysis Report by Offering Type (IFE, IFC), By Component (Hardware, Connectivity, Content), By Aircraft Type, By Region, And Segment Forecast, 2019 – 2025.

that this is an innovative approach that differentiates us from existing market players who charge commercial airlines for their equipment and passengers for connectivity; and

- Sell our IFEC equipment to owners and operators of corporate jet aircraft such as Airbus ACJ (Airbus Corporate Jets) and Boeing BBJ (Boeing Business Jets) for installation on aircraft either at the production stage or in post-delivery modification. We will also sell to these aircraft owners and operators the satellite bandwidth that will be required to operate our IFEC systems and for their passengers to be able to access the internet through these systems, priced according to individual customer requirements such as the regions where they fly to, bandwidth and download speeds required and usage time.

Remote and Maritime Connectivity

We believe that there is an untapped demand for maritime and remote hotel and resort satellite services around the globe, which we plan to continue to pursue.

We have developed two internet connectivity systems, one for hotels primarily located in remote regions and the other for maritime use. Both systems operate through Ku HTSs. Ku-band satellites operate at a lower frequency than the Ka-band and provide reliable service outside of the Ka-band coverage over the ocean and in mountainous regions. We also are planning to develop a remote connectivity system for the high-speed rail industry.

To market these systems, we plan to:

- Sell our connectivity equipment to hotels and resorts located in remote ocean areas and mountain regions. As with our IFEC aircraft solutions, we will also sell to these customers the satellite bandwidth over which our remote connectivity systems will operate.
- Sell our connectivity equipment to owners of maritime vessels such as cruise or freight liners, fishing vessels, ferry boats and yachts, as well the required satellite bandwidth over which these connectivity systems will operate.

The diagram below depicts the different markets we are and expect to be targeting.



IFEC Ground Support Systems

To complement and facilitate our planned IFEC service offerings, we intend to build satellite ground stations and related data centers within the geographic regions where we expect to be providing IFEC airline services. To this end, we have acquired an approximately 6.3 acre parcel of land in Taiwan where, pending our receipt of the certificate of title to this parcel and acquiring the needed financing (as further discussed below), we expect to locate and build our first satellite ground station and data center.

Our Competitive Strengths

Innovative business model.

We believe that our business model sets us apart from most of our competitors. We combine cutting-edge connectivity technology with a creative content-driven approach. Traditionally, providers of in-flight connectivity have focused primarily on the profit margin derived from the sale of hardware to commercial airlines and of bandwidth to passengers. Both airlines and passengers have to “pay to play,” which results in low participation and usage rates. We break away from this model and set a new trend with our innovative business model, which, we expect, will set us apart from our competitors. Commercial airline companies will recover their costs through participating in our revenue sharing model while passengers will not be required to pay for connectivity. Taken together, this novel approach creates an incentive for airlines to work with us and should act to drive up passenger usage rates.

Ka-band and GEO/LEO Hybrid Satellite Technology

Our IFEC System, which we refer to as AERKOMM K++, utilizes the Ka-band for signal transmission. Most in-flight connectivity systems currently in the market rely on the Ku-band satellite signals for communication. Ka-band satellites have much greater data throughput than Ku-band satellites. Many players in the market are working to provide higher bandwidth and faster transmission rates using the Ka-band. Although there are currently certain coverage limits in some world regions, new geostationary earth orbiting (GEO), low earth orbiting (LEO) and Ka-band satellites, however, are now being regularly launched, and this increase in new generation satellites is expected to result in worldwide Ka-band coverage over the next few years. For more information about our satellite-based communication options, see “*Business - Our Connectivity Solutions - Ka/Ku Band Satellites*” below.

Growth Strategies

We are striving to become a leading provider of IFEC solutions to the aircraft and airline industries by pursuing the following growth strategies:

Launch and increase number of connected aircrafts.

As of the date of this Offering Memorandum, we have not provided our services on any corporate jets or commercial aircraft. However, we now have an agreement in place with MJet GmbH, or MJet, a corporate jet owner operating an Airbus ACJ A319 based in Austria, pursuant to which MJet placed a first purchase order with Aircom for our first planned installation of our AERKOMM K++ system equipment, which we expect to deliver during the last quarter of 2020. This timing may be delayed, however, due to the ongoing impact of the COVID-19 pandemic. This installation will enable us to commence a rollout of sales and installation of our IFEC equipment and services to other aircraft. Additionally, we recently signed an agreement with Hong Kong Airlines. Under the terms of this agreement, Aircom will provide to Hong Kong Airlines its Ka-band AERKOMM K++ IFEC system for installation on its fleet of 12 Airbus A320 and 5 Airbus A330-300 aircraft as well as the AERKOMM AirCinema system for the Airbus A320 aircraft. The Aerkomm AirCinema system is the wireless seat back screen entertainment system with on-line capability which we are designing specifically for Hong Kong Airlines. Hong Kong Airlines will be the first commercial airliner customer for Aircom launching our AERKOMM K++ IFEC system into the commercial airlines industry.

Increase passenger use of connectivity.

We believe that our business model, under which neither airlines nor passengers need to pay for basic services, will create an incentive for the airlines to work with us while driving passenger usage rates.

Expand satellite network coverage.

We will continue to expand our global satellite network coverage through the purchase of additional Ka-band capacity from various satellite companies, and seek to install our satellite-based solutions in aircraft, while continuing to invest in research and development of satellite antenna and modem technologies.

Expand satellite-based services to other markets.

We anticipate broadening our satellite-based services to high-speed railways, maritime and cruise lines, 4G/5G backhauling, and converged triple-play services in remote communities, with the potential to expand internationally into new markets.

To further our growth strategy, we plan to:

- leverage our creative business model and IFEC system to cost-effectively equip corporate jets and commercial aircraft;
- increase the number of to be equipped aircraft, targeting full-fleet availability of our IFEC equipment and services for our current and future airline partners;
- pursue global growth opportunities by leveraging our broad and innovative technology platform and technical expertise; and
- offer attractive business models to our corporate jet and airline partners, giving them the flexibility to determine the connectivity solutions that meet the unique demands of their businesses.

Organization

Aircom was incorporated in the State of California on September 29, 2014. On December 28, 2016, Aircom purchased control of the public company then known as Maple Tree Kids, Inc. (“MTKI”) for the purpose of engaging in a reverse acquisition with MTKI. On January 10, 2017, MTKI changed its name to Aerkomm Inc., and on February 13, 2017, Aircom and its stockholders completed the reverse acquisition, as a result of which Aircom became a wholly-owned subsidiary of Aerkomm.

Our principal executive offices are located at 923 Incline Way #39, Incline Village, NV 89451 and Aircom’s principal executive offices are located at 44043 Fremont Blvd., Fremont, CA 94538. Our telephone number is +1-877-742-3094. We maintain a website at www.aerkomm.com. The information on our website or any other website is not incorporated by reference into this Offering Memorandum and does not constitute a part of this Offering Memorandum.

Risks Related to Our Business

Our business is subject to numerous risks, which are highlighted in the section entitled “Risk Factors” immediately following this offering memorandum summary. Some of these risks include:

- we have a history of operating losses (after excluding non-recurring revenues) and we may not be able to reach or maintain profitability;
- difficulties in entering into and maintaining long-term business arrangements with airline partners, which agreements depends on numerous factors including the real or perceived availability, quality and price of our services and product offerings as compared to those offered by our competitors;
- difficulties in having airline partners and ultimately customers adopt our products and services;
- difficulties in implementing our technology and upgrades on a timely basis;
- difficulties in the execution of our expansion plans, including modification to our network to accommodate satellite technology, development and implementation of new satellite-based technologies, the availability of satellite capacity, costs of satellite capacity to which we may have to commit well in advance, and compliance with regulations;
- difficulties in managing a rapidly growing company and managing the regulatory requirements and carrying the costs of being a public reporting company;

- the number of aircraft in service in our markets, including consolidation of the airline industry or changes in fleet size by one or more of our commercial airline partners;
- the impact and effects of the global outbreak of the coronavirus (COVID-19) pandemic, and other potential pandemics or contagious diseases or fear of such outbreaks, on the global airline and tourist industries, especially in the Asia Pacific region;
- the economic environment and other trends that affect both business and leisure travel;
- the continued demand for connectivity and proliferation of Wi-Fi enabled devices, including smartphones, tablets and laptops;
- our ability to obtain required telecommunications, aviation and other licenses and approvals necessary for our operations;
- changes in laws, regulations and interpretations affecting telecommunications services and aviation, including, in particular,
- changes that impact the design of our equipment and our ability to obtain required certifications for our equipment;
- our industry is subject to intense competition and rapid technological change, which may result in products or new solutions that are superior to our products under development or other future products we may bring to market from time to time and if we are unable to anticipate or keep pace with changes in the marketplace and the direction of technological innovation and customer demands, our products may become less useful or obsolete and our operating results will suffer;
- we may not be able to operate and grow our business effectively if we lose the services of any of our key personnel or are unable to attract qualified personnel in the future; and
- our growth strategy will require significant additional financial resources, which may not be available to us on acceptable terms.

For further discussion of these and other risks you should consider before making an investment in the Bonds, see the section titled “Risk Factors” immediately following this offering memorandum summary.

Emerging Growth Company

We qualify as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As a result we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:

- have an auditor report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to shareholder advisory votes, such as “say-on-pay” and “say-on-frequency”; and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO’s compensation to median employee compensation.

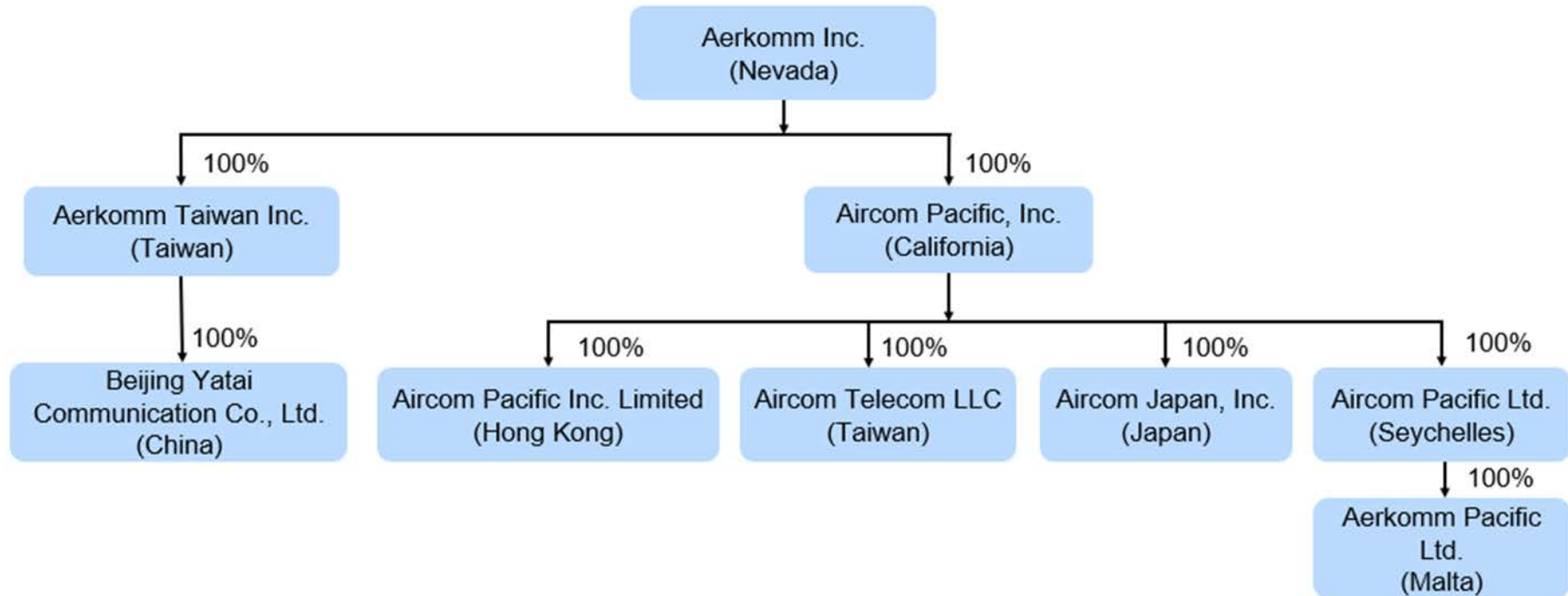
In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards.

In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed US\$1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our shares of Common Stock that are held by non-affiliates exceeds US\$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than US\$1 billion in non-convertible debt during the preceding three year period.

Organizational Structure

The following chart shows our corporate organization structure as of November 6, 2020:



Recent Developments

PPP Loan

On April 16, 2020, we received loan proceeds in the amount of US\$163,200 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. According to PPP, borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8- or 24-week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred. The Company has applied for the forgiveness of the loan within the maturity date and is waiting for the approval.

Working Capital Loan

On April 16, 2020, we entered into an agreement with one of our business partners, EESquare Superstore Corp. for a working capital loan of up to US\$1.5 million, with an annual interest rate at 3.25%. As of November 7, 2020, we had drawn down US\$1,100,000 under this loan agreement.

Public Offering of Common Stock

On April 30, 2020, we filed a Registration Statement on Form S-1 (as amended to date, the “Registration Statement”) with the SEC, pursuant to Section 5 of the Securities Act, to register for sale of up to €40 million (approximately \$47,332,000) of Common Stock, at a per share price to be determined (the “Public Offering”). On July 29, 2020, we filed an amendment to the Registration Statement (the “S-1 Amendment”) to respond to certain SEC comments. Pursuant to the S-1 Amendment, the price for the shares of Common Stock to be offered is expected to be between €33.60 and €42.00 per share. On October 20, 2020, we filed a second amendment to the Registration Statement (the “S-1 Second Amendment”) to respond to certain SEC comments. Pursuant to the S-1 Second Amendment, the number of shares of Common Stock to be registered has been changed to 1,951,219, and the price for the shares of Common Stock to be offered is expected to be €20.50. On November 6, 2020, we filed a third amendment to the Registration Statement (the “S-1 Third Amendment”) to respond to SEC comment. Pursuant to the S-1 Third Amendment, the Public Offering, at a public offering price of €20.50 per share, the maximum of 1,951,219 shares of Common Stock can be sold in the offering or 2,243,902 shares of Common Stock assuming the over-subscription amount is exercised in full. In addition, this Public Offering will terminate 90 days following SEC effectiveness of the Registration Statement, which date may be extended by us for an additional 30 days, and which may be further extended for an additional 45 days in the event the underwriter exercises the over-subscription option. However, this is no assurance this Public Offering will be launched prior to or after this offering, or at all. The Registration Statement was declared effective on November 6, 2020.

Telesat Cooperation Agreement

On June 23, 2020, Aircom entered into a cooperation agreement with Telesat Leo Inc., or Telesat, a wholly owned subsidiary of Telesat Canada. Telesat is one of the world’s largest and most successful satellite operators providing critical connectivity solutions that tackle complex communications challenges. Through this agreement, Aircom and Telesat will jointly collaborate to develop a test program for the Telesat low-Earth-orbit (LEO) Network, Telesat’s network of low-earth orbit satellites for aircraft connectivity, to assess the technical and commercial viability of incorporating the Telesat LEO Network capacity into Aircom’s IFEC product portfolio and network. Aircom and Telesat will collaborate in both technical and commercial activity. The two parties’ technical collaboration is expected to include testing network performance, leveraging Telesat’s Phase 1 LEO satellite which has been in polar orbit since 2018, ensuring compatibility with existing Aircom IFEC solutions and future user terminal solutions, and end-to-end implementation within regulatory guidelines. Commercial collaboration will include optimizing business and operating models, joint presentations and information sessions with key customers and partners, and exploring a long-term joint development plan. This cooperation agreement between Aircom and Telesat is preliminary and nonbinding and subject to the negotiation and execution of a definitive agreement. Aercomm expects that a definitive agreement will be signed, although there can be no assurance when this will happen, if at all.

Agreement with Airbus Interior Services

On July 24, 2020, Aerkomm Malta, entered into an agreement with Airbus Interior Services relating to the Aerkomm K++ Connectivity Solution Installation on the Airbus A320 family of aircraft. This new agreement between Aerkomm Malta and Airbus Interior Services follows an agreement Aircom signed with Airbus ACJ in November 2018 pursuant to which Airbus agreed to develop, install and certify the Aerkomm K++ System on a prototype A320 aircraft to EASA and FAA certification standards. Under the new agreement, Aerkomm Malta and Airbus Interior Services have agreed that Airbus Interior Services will provide and certify, in accordance with Airbus Design Organization Approval, a complete retrofit solution to develop EASA/FAA certified Service Bulletins, to supply related Aircraft Modification Kits, and to install the Aerkomm K++ Connectivity solution on the A320 family of commercial aircraft. This new agreement also includes Airbus support for the integration of the Aerkomm K++ System components on the aircraft, including ARINC 791 structural reinforcements and related engineering work. Additionally, Airbus Interior Services will provide support for National Airworthiness Authorities (NAA) certification as required in addition to the EASA certification, as well as on-site technical support at the Maintenance Repair Organization (MRO) base for the aircraft retrofit.

Product Purchase Agreement Dispute

On October 15, 2018, Aircom Telecom entered into a product purchase agreement, or the October 15th PPA, with Republic Engineers Maldives Pte. Ltd., a company affiliated with Republic Engineers Pte. Ltd., or Republic Engineers, a Singapore based, private construction and contracting company. On November 30, 2018, the October 15th PPA was re-executed with Republic Engineers Pte. Ltd. as the signing party. We refer to this new agreement as the November 30th PPA and, together with the October 15th PPA, the PPA. Under the terms of the PPA, Republic Engineers committed to the purchase of a minimum of 10 shipsets of the AERKOMM K++ system at an aggregate purchase price of \$10 million. Additionally, under the terms of the PPA, the Executive Director of Republic Engineers, C. A. Raja, agreed to sign an agreement, or the Guarantee, to guarantee all of the obligations of Republic Engineers under the PPA. Republic Engineers had submitted a purchase order, or PO, dated October 15, 2018 for the 10 shipsets and was supposed to have made payments to Aircom Telecom against the purchase order shortly thereafter. To date, Republic Engineers has made no payments against the purchase order and the Company has not begun any work on the ordered shipsets. On July 7, 2020, Republic Engineers and Mr. Raja filed a complaint against Aerkomm, Aircom and Aircom Telecom in the Superior Court of the State of California for the County of Alameda, or the Court, seeking declaratory relief only and no money damages, alleging that the PPA and the PO were not executed or authorized by Republic Engineers and that the Guarantee was not executed or authorized by Mr. Raja. Republic Engineers and C. A. Raja have requested from the Court (i) orders that the PPA, the PO and the Guarantee be declared null and void and (ii) the payment of their reasonable attorney's fees. On July 29, 2020, Aircom Telecom provided notice to Republic Engineers that the PPA and the PO have been terminated according to their terms as a result of the non-performance of Republic Engineers and the Failure of Mr. Raja to provide the Guarantee. Aerkomm denies the allegations in the complaint and believes that the claims filed by Republic Engineers and Mr. Raja have no merit. Aerkomm has retained special litigation counsel and intends to vigorously defend against the claims. Aerkomm does not expect that this proceeding will have a material adverse effect on its results of operations or cashflow.

Cooperation Framework Agreement Dispute

On June 20, 2018, we entered into the Cooperation Framework Agreement, as supplemented on July 19, 2019, with Shenzhen Yihe Culture Media Co., Ltd., or Yihe, the authorized agent of Guangdong Tengen Internet, or Tencent Group, pursuant to which Yihe agreed to assist the Company with public relations, advertising, market and brand promotion, as well as with the development of a working application of the Tencent Group WeChat Pay payment solution and WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes. As compensation under this Yihe agreement, we paid Yihe RMB 8 million (approximately US\$1.2 million). On October 16, 2020, in accordance with the provisions of the agreement with Yihe, as supplemented, we filed an arbitration action with the Shenzhen International Arbitration Court, or the Arbitration Court, claiming that Yihe failed to perform under the terms of the supplemented agreement and seeking a complete refund of our RMB 8 million payment to Yihe. We received notice from the Arbitration Court on October 16, 2020 of receipt of our arbitration filing and the requirement to pay the Arbitration Court RMB 190,000 in fees relating to the arbitration. We intend to aggressively pursue this matter.

THE OFFERING

The following is only a summary and a more complete description of the terms and conditions of the Bonds is set out in “Description of the Bonds.” Capitalized terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Bonds.”

Issuer.....	Aerkomm Inc.
Bonds	(i) US\$10,000,000 credit enhanced zero coupon convertible bonds due 2025 (the “Credit Enhanced Bonds”); and (ii) US\$200,000 7.5% convertible bonds due 2025 (the “Coupon Bonds”, and together with the Credit Enhanced Bonds, the “Bonds”).
Conversion Shares	Shares of Common Stock with a par value of US\$0.001 each in the capital stock of the Issuer.
Issue Price.....	100% of the principal amount of the Bonds.
Issue Date.....	December 2, 2020
Initial Conversion Price	US\$13.30 per Conversion Share. The price determining the number of Conversion Shares to be delivered upon conversion will be subject to adjustment in the manner provided in “Description of the Bonds - Adjustment of the Conversion Price.”
Interest	No interest shall be payable on the Credit Enhanced Bonds. The Coupon Bonds will bear interest at a rate of 7.5% per year. Interest on the Coupon Bonds will accrue from, and including, December 2, 2020 and will be payable semiannually in arrears on June 1 and December 1 of each year, beginning on June 1, 2021.
The Offering	The Bonds and the Conversion Shares are being offered by the Initial Purchaser outside the U.S. in offshore transactions in reliance on Regulation S under the Securities Act.
Status of the Bonds	The Bonds constitute the direct, unsubordinated, unconditional and unsecured (except with respect to the Bank Guarantee in the case of Credit Enhanced Bonds (as defined below)) obligations of the Issuer, and shall at all-time rank <i>pari passu</i> and without any preference or priority among themselves.
BG Bank	Bank of Panhsin Co., Ltd.
Bank Guarantee	The Credit Enhanced Bonds will have the benefit of a bank guarantee denominated in U.S. dollars issued by Bank of Panhsin Co., Ltd., to guarantee the payment of the principal, premium, interest (if any) and any other payment obligations of the Issuer (which shall include the default interest) when such amount is required to be paid pursuant to the Credit Enhanced CB Indenture. See “The Bank Guarantee”.
Use of Proceeds	We intend to primarily use the net proceeds (after deducting fees and expenses payable by us) from this Offering for the purposes of (1) conducting potential merger and acquisitions, (2) building ground station and data center, (3) engaging in product development, and (4) supporting our working capital. See “Use of Proceeds.”

Conversion Right	The Conversion Right attaching to any Bonds (in denominations of US\$200,000 and integral multiples thereof) may be exercised, at the option of the holder thereof, at any time on or after December 3, 2020 up to the close of business (at the place where such Certificate evidencing the Bond is deposited for conversion) on November 20, 2025, or if such Bond shall have been called for redemption then up to the close of business (at the place aforesaid) on a date no later than five Business Days (at the place aforesaid) prior to the date fixed for redemption thereof. Subject to the relevant Indenture, the Issuer will pay cash amounts relating to any fractional entitlements at the same time as the Conversion Shares are delivered.
Final Redemption.....	Unless previously redeemed, converted, or repurchased and canceled in the circumstances referred to in “<i>Description of the Bonds</i>,” the Credit Enhanced Bonds will be redeemed at 105.11% of the principal amount and Coupon Bonds will be redeemed at 100% of the principal amount plus any accrued and unpaid interest, each in U.S. dollars on December 2, 2025 (the “Maturity Date”).
Redemption at the Option of the Issuer ...	On or at any time after December 2, 2023 and prior to the Maturity Date, the Issuer may, upon giving not less than 30 nor more than 60 days’ notice to the Bondholders and upon reasonable notice in advance of such notice to the Bondholders to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds in whole or in part (at the Issuer’s sole discretion) at the Early Redemption Amount (as defined herein) if the closing price converted into U.S. dollars at the then prevailing exchange rate of our Common Stock listed on the Euronext Paris for 20 trading days in any period of 30 consecutive trading days, the last day of which occurs not more than fifteen trading days prior to the date on which notice of such redemption is given, is greater than 130% of the Conversion Price on each applicable trading day. If at any time the aggregate principal amount of the Bonds outstanding is 10% or less of the aggregate principal amount originally issued, the Issuer shall have the option to redeem the remaining outstanding Bonds in whole but not in part at the Early Redemption Amount. The Issuer will give at least 30 days’, but not more than 60 days’, prior notice to the Bondholders for such redemption and will give reasonable notice to the Trustee and the Principal Paying Agent in advance of such notice to the Bondholders.
Redemption for Taxation Reasons.....	At any time, the Issuer may, upon giving not less than 30 nor more than 60 days’ notice to the Bondholders and upon reasonable notice in advance of such notice to the Bondholders to the Trustee and the Principal Paying Agent (which notice shall be irrevocable) redeem all (but not less than all) of the Bonds at the Early Redemption Amount if the Issuer has or will become obliged to pay additional amounts as referred to in “<i>Description of the Bonds - Taxation</i>” as a result of any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of the United States, France or the Republic of Singapore (or any political subdivision or any authority thereof or therein having power to tax), or any change in the position regarding the application, administration or any new or different interpretation of such laws, treaties, regulations or rulings which will become effective on or after the Issue Date and such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior

to the earliest date on which the Issuer would be obliged to pay such additional amounts in respect of the Bonds. If any Bondholder elects its Bonds not be redeemed, no additional amounts shall be payable on the payments due in respect of such Bonds.

Early redemption at the option of the Issuer.....	The Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Bondholders and upon reasonable notice in advance of such notice to the Bondholders to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds in whole or in part (at the Issuer's sole discretion) at the Early Redemption Premium Amount (as defined herein) on December 2, 2022.
Early redemption at the option of the Bondholders.....	The Issuer will, at the option of the holder of any Bond, repurchase all or some of that holder's Bonds (in denominations of US\$200,000 and integral multiples thereof) on December 2, 2023 (the "Holder's Put Date") at a repurchase price equal to the applicable Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit, at the specified office of any Paying Agent, a duly completed and signed notice together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Holder's Put Date.
Repurchase in the Event of Delisting.....	In the event that our shares are not listed or admitted to trading on the Euronext Paris and/or OTCQX, each Bondholder shall have the right, at such Bondholder's option, to require the Issuer to repurchase such Bondholder's Bonds, in whole but not in part (in denominations of US\$200,000 and integral multiples thereof), on the day set by the Company for such repurchase which shall be not less than thirty (30) days nor more than sixty (60) days following the date on which the Company notifies the Holders in writing of the Delisting at a repurchase price equal to the applicable Early Redemption Amount thereof.
Repurchase at the Option of the Holder upon a Change of Control.....	Unless the Bonds have been previously redeemed, converted, or repurchased and canceled, each Holder shall have the right, at such Holder's option, to require the Company to repurchase such Holder's Bonds in whole but not in part (in denominations of US\$200,000 and integral multiples thereof), at a repurchase price equal to the Early Redemption Amount upon the occurrence of a Change of Control, as defined herein. See " <i>Description of the Bonds - Change of Control Put Right.</i> "
Taxation	Except in certain circumstances, all payments of principal, premium or default interest (if any) made by the Issuer will be made free from any restriction or condition and without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic of Singapore, France or the United States (or any political subdivision or any authority thereof or therein having power to tax), unless deduction or withholding of such taxes, duties, assessments or governmental charges is required by law. In such event, the Issuer will pay such additional amounts as will result in the receipt by Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required. See " <i>Description of the Bonds - Taxation.</i> "

Negative Pledge	So long as any of the Bonds remains outstanding, we will not and will ensure that none of our Subsidiaries (as defined herein) will create security for the benefit of holders of any securities or for any guarantee thereof without granting equivalent security with respect to the Bonds. See “ <i>Description of the Bonds - Negative Pledge.</i> ”
Events of Default	For a description of events that will permit acceleration of the Bonds, see “ <i>Description of the Bonds - Events of Default.</i> ”
Anti-Dilution Provisions.....	The Bonds will contain provisions for the adjustment of the Conversion Price in the event of the occurrence of certain dilutive events, including, among other things, bonus issues to the stockholders, alterations to the nominal value of our shares, rights issues and capital distributions (including any extraordinary dividends).
Governing Law	The Bonds, the Indentures and the Agency Agreements will be governed by and construed in accordance with the laws of the State of New York.
Form and Denomination	The Bonds will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples thereof, and will initially be represented by relevant Global Certificate registered in the name of the nominee of the common depositary for Euroclear and Clearstream. Definitive Certificates in respect of the Bonds will not be issued in exchange for the Global Certificate, except in the limited circumstances described herein. See “<i>Description of the Bonds - Transfer of Bonds, Issue of Certificates.</i>”
Transfer Restrictions.....	We have not registered the Bonds (or the shares issuable upon conversion thereof) under the Securities Act and accordingly, the Bonds (and the Conversion Shares issuable upon conversion thereof) are subject to restrictions on transferability and resale. See “ <i>Plan of Distribution</i> ” and “ <i>Transfer Restrictions.</i> ”
Listing and Trading.....	Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST takes no responsibility for the correctness of any statements made, reports contained or opinions expressed herein. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Offering, our Company, our subsidiaries or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption in the event that the relevant Global Certificate is exchanged for corresponding Definitive Certificates. In addition, in the event that the relevant Global Certificate is exchanged for corresponding Definitive Certificates, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the corresponding Definitive Certificates, including details of the paying agent in Singapore.

The Bonds are a new issue of securities, and there is currently no established trading market for the Bonds. Accordingly, there can be no assurance as to the development or liquidity of any market for the Bonds. Our Common Stock is quoted for trading on the OTCQX Best Market under the symbol “AKOM” and on the Euronext Paris under the symbol “AKOM” denominated in Euros on Euronext Paris. Application will be made for the listing of the shares of Common Stock issuable upon conversion of the Bonds on the Euronext Paris.

Legal Entity Identifier.....	5493009CUNFK9IGU8R54
Clearing	Each of the Credit Enhanced Bonds and Coupon Bonds have been accepted for clearance by Euroclear and Clearstream under the following Common Code and ISIN:
	(i) Credit Enhanced Bonds:
	ISIN: XS2243298143
	Common Code: 224329814
	(ii) Coupon Bonds:
	ISIN: XS2243298812
	Common Code: 224329881
Trustee	Citicorp International Limited
Principal Paying Agent, Transfer Agent and Conversion Agent	Citibank, N.A., London Branch
Registrar.....	Citibank, N.A., London Branch
Risk Factors	An investment in the Bonds is subject to significant risk, which should be carefully considered by potential investors. See “ <i>Risk Factors</i> ”.
Public Offering of Common Stock	On April 30, 2020, we filed the S-1 Registration Statement with the SEC (as amended by the S-1 Amendment on July 29, 2020, the S-1 Second Amendment on October 20, 2020 and the S-1 Third Amendment on November 5, 2020) relating to a proposed offering of up to 1,951,219 new shares of our Common Stock (the “Public Offering”). The price for the shares of Common Stock to be offered is €20.50 per share. For this Public Offering, at a public offering price of €20.50 per share, the maximum of 1,951,219 shares of Common Stock can be sold in the offering or 2,243,902 shares of Common Stock assuming the over-subscription amount is exercised in full. This Public Offering will terminate on 90 days following SEC effectiveness of the S-1 Registration Statement, which day may be extended by us for an additional 30 days, which may be further extended for an additional 45 days in the event the underwriter exercises the over-subscription option. However, this is no assurance this Public Offering will be launched prior to or after this offering, or at all. The S-1 Registration Statement was declared effective on November 6, 2020. The net proceeds from the Public Offering are expected to be used for general corporate purposes, such as working capital, product development, marketing activities, and other capital expenditures including the building of our first satellite ground station and data center on the parcel of land we have acquired in Taiwan.

RISK FACTORS

You should carefully evaluate each of the following risk factors and all of the other information set forth in this Offering Memorandum before deciding to invest in the Bonds. If any of the risk factors or other uncertainties develop into an actual event or events, our business, financial condition or results of operations could be materially and adversely affected. In such case, the trading price of the Bonds or Shares may decline. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us as described below and elsewhere in this Offering Memorandum. Forward-looking statements are only forecasts and are not necessarily indicative of the results that may be expected for the full year or any future periods.

Risks Relating to Our Business

Excluding non-recurring revenues in the second quarter of 2019 and 2018 from affiliates, we have incurred operating losses in every quarter since we launched our business and may continue to incur quarterly operating losses, which could negatively affect the value of our company.

Excluding non-recurring revenues we earned from affiliates in the second quarter of fiscal 2019 and 2018, we have incurred operating losses since our inception in 2014, and we may not be able to generate sufficient revenue in the future to generate operating income. We also expect our costs to increase materially in future periods, which could negatively affect our future operating results. We expect to continue to expend substantial financial and other resources on the continued launch and future expansion of our business. The amount and timing of these costs are subject to numerous variables and such initiatives may require additional funding. In addition, we may incur significant costs in connection with our pursuit of next generation air to ground technology or other new technologies. With respect to our expansion, such variables may include costs related to sales and marketing activities and administrative support functions, equipment subsidies to airlines and additional legal and regulatory expenses associated with operating in the international commercial aviation market. In addition, we expect to incur additional general and administrative expenses, including legal and accounting expenses, related to being a public company. These investments may not result in revenue or growth in our business. If we fail to grow our overall business and generate revenue, our financial condition and results of operations would be adversely affected.

Our company is in the development stage and has a limited operating history, which may make it difficult to evaluate our current business and predict our future performance.

Our company and our core business are in the development stage and faces all of the risks and uncertainties associated with a new and unproven business. We plan to launch our services in the last quarter of 2020, initially in Europe with our launch customer MJet. The limited operating history of our business may make it difficult to accurately evaluate the business and predict its future performance. Any assessments of our current business and predictions that we or you make about our future success or viability may not be as accurate as they could be if we had a longer operating history. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, and the size and nature of our market opportunity will change as we scale our business and increase deployment of our service. If we do not address any of the foregoing risks successfully, our business will be harmed.

We expect to rely on a few key airline partners for all of our initial revenue.

Our initial business will be substantially dependent on our relationship with a few key airline partners. There can be no assurance that we will be able to maintain our relationship with these airlines. If we are unable to maintain and renew our relationship with these airlines, or if our arrangement is modified so that the economic terms become less favorable to us, then our business would be materially adversely affected.

An extended delay in the transfer of title to us of the Taiwan land parcel that we recently purchased could delay the building of our first satellite ground station and have a negative impact on our business prospects.

In July, 2019, we completed payment of the NT\$1,098,549,407, or \$35,861,589, purchase price for our acquisition of 6.36 acres of undeveloped land (which we refer to as the Taiwan land parcel) located at the Taishui Grottoes in the Xinyi District of Keelung City, Taiwan. Our agent has received all of the necessary title transfer documentation from the seller however, according to the land use law of Taiwan, we need to submit a usage plan

and to obtain the necessary license or authorization for the intended usage before we can obtain an official certificate of title. Aerkomm Taiwan is currently preparing the plan of usage and is working with various regulatory authorities to obtain the necessary license and approval to meet the local land use law requirements. We do not know at this time how long it will take to complete this process and receive the certificate of title to the parcel. Once title to the Taiwan land parcel is transferred to us we expect to lease a portion of the land parcel, pursuant to the terms of an existing binding memorandum of understanding, to a Samoa based telecom company who will use the land for their own satellite ground station and to mortgage the land to be able to raise funds to build our first satellite ground station and data center. If there is an extended delay in the transfer of the Taiwan land parcel title to us, our agreement with the Samoa telecom company may be terminated and we may not be able to raise the funds needed to build our ground station in a timely fashion. Either or both of these eventualities could have a negative impact on our business plans, prospects and future results of operations.

If the transactions contemplated by several memorandums of understanding (MOU) do not proceed, our results of operations and financial condition could be materially adversely affected.

On January 19, 2016, January 29, 2016, June 16, 2016, October 28, 2017, March 7, 2018 and March 20, 2020, we entered into the Yahoo MOU, the LeTV MOU, the India MOU, the Malta MOU, the Airbus MOU and the Yuan Jiu MOU, respectively. These MOUs are nonbinding and as a result, they only express the desires and understandings between the parties and do not create any legally binding rights, obligations or contracts except for certain customary provisions such as exclusivity, costs and expenses, confidentiality and governing law. For more information related to these MOUs, please refer to the section “Business - Our Contracts with Airline Partners.” Any binding obligation to proceed with the transactions contemplated by the MOUs would need to be included in a definitive agreement that is subject to negotiations of the parties, approvals by the board of directors of respective parties and in certain instances, approvals from regulatory authorities. The Yahoo MOU and LeTV MOU expired in January 2018. We are in the process of negotiating to extend the Yahoo MOU. We do not intend to extend the LeTV MOU. The Yuan Jiu MOU has been terminated and superseded by definitive agreements. See “Business - Other Agreements and Understandings with Our Business Partners” There can be no assurance that we will be able to extend the expired MOUs or enter into such definitive agreements or receive the required governmental approvals. If for whatever reason the transactions contemplated by the MOUs do not proceed, our results of operations and financial condition could be materially adversely affected.

We may not be able to grow our business with our current airline partner or successfully negotiate agreements with airlines to which we do not currently provide our service.

Currently, our only airline partner is Hong Kong Airlines Limited, a Hong Kong-based airline, or Hong Kong Airlines, although we have not yet begun to provide our IFEC products and services to Hong Kong Airlines under our agreement with them. We are currently in advanced negotiations or discussions with certain other airline partners to provide our IFEC services on additional aircraft in their fleets. We have no assurance that these efforts will be successful. Negotiations with prospective airline partners require substantial time, effort and resources. The time required to reach a final agreement with an airline is unpredictable and may lead to variances in our operating results from quarter to quarter. We may ultimately fail in our negotiations and any such failure could harm our results of operations due to, among other things, a diversion of our focus and resources, actual costs and opportunity costs of pursuing these opportunities. In addition, the terms of any future agreements could be materially different than the terms included in our existing agreement with Hong Kong Airlines. To the extent that any negotiations with current or future potential airline partners are unsuccessful, or any new agreements contain terms that are less favorable to us, our growth prospects could be materially and adversely affected.

We will likely need additional financing to execute our business plan or new initiatives, which we may not be able to secure on acceptable terms, or at all.

We will require additional financing in the near and long term to fully execute our business plan. Our success may depend on our ability to raise such additional financing on reasonable terms and on a timely basis. Conditions in the economy and the financial markets may make it more difficult for us to obtain necessary additional capital or financing on acceptable terms, or at all. If we cannot secure sufficient additional financing, we may be forced to forego strategic opportunities or delay, scale back or eliminate additional service deployment, operations and investments or employ internal cost savings measures. Furthermore, we will be forced to take some or all of these measures if we do not raise sufficient funds in this public offering, the successful completion of which we cannot guarantee.

We are dependent on airline partners to be able to access our customers. We expect that future payments by these customers for our services to be provided to them will account for most, if not all, of our initial revenues.

Under our existing contract with Hong Kong Airlines, we will provide our equipment for installation on, and provide our services to passengers on, a portion of the aircraft operated by this airline. We expect to enter into similar contracts with other airlines in the future but there is no assurance that we will be successful in signing up additional airline partners. We expect that revenue from passengers using our service while flying on aircraft operated by our airline partners will account for the majority of our projected initial revenue once we begin our services. As of the date of this Offering Memorandum, we do not yet have any revenue from equipment sales and installation. Our growth will be dependent on our ability to have our equipment installed on the aircraft of airline partners and increased use of our service on installed aircraft. Any delays in installations under these contracts may negatively affect our ability to grow our user base and revenue.

A failure to maintain airline satisfaction with our equipment or our service could have a material adverse effect on our revenue and results of operations.

Our relationships with our current and future potential airline partners are critical to the growth and ongoing success of our business. If airline partners are not satisfied with our equipment or our service for any reason, including passenger dissatisfaction with the service as a result of capacity constraints, they may reduce efforts to co-market our service to their passengers, which could result in lower passenger usage and reduced revenue, which could in turn give airline partners the right to terminate their contracts with us. In addition, airline dissatisfaction with us for any reason, including delays in obtaining certification for or installing our equipment, could negatively affect our ability to expand our service to additional airline partners or aircraft or lead to claims for damages, which may be material, or termination rights under our existing or potential contracts with airline partners.

We may experience network capacity constraints in our future operation regions and we expect capacity demands to increase, and we may in the future experience capacity constraints internationally. If we are unable to successfully implement planned or future technology enhancements to increase our network capacity, or our airline partners do not agree to such enhancements, our ability to acquire and maintain sufficient network capacity and our business could be materially and adversely affected.

All providers of wireless connectivity services, including all providers of in-flight connectivity services, face certain limits on their ability to provide connectivity service, including escalating capacity constraints due to expanding consumption of wireless services and the increasing prevalence of higher bandwidth uses such as file downloads and streaming media content. The success of our business depends on our ability to provide adequate bandwidth to meet customer demands while in-flight. We may find it difficult to provide this adequate bandwidth.

Competition from a number of companies, as well as other market forces, could result in price reduction, reduced revenue and loss of market share and could harm our results of operations.

We face strong competition from satellite-based providers of broadband services that include in-flight internet and live television services. Competition from such providers has had in the past and could have in the future an adverse effect on our ability to maintain or gain market share. Most of our competitors are larger, more diversified corporations and have greater financial, marketing, production, and research and development resources. As a result, they may be better able to withstand the effects of periodic economic downturns or may offer a broader product line to customers. In addition, to the extent that competing in-flight connectivity services offered by commercial airlines that are not our airline partners are available on more aircraft or offer improved quality or reliability as compared to our service, our business and results of operations could be adversely affected. Competition could increase our sales and marketing expenses and related customer acquisition costs. We may not have the financial resources, technical expertise or marketing and support capabilities to continue to compete successfully. A failure to effectively respond to established and new competitors could have a material adverse impact on our business and results of operations.

We may be unsuccessful in generating revenue from live television and other in-flight entertainment services.

We are currently developing a host of service offerings to deliver to our future commercial airline customers. We plan to offer live television and other service to our customers and no assurance can be given that we will ultimately be able to launch any channels or provide any service. Additionally, we plan to generate a revenue stream from our video on demand and other in-flight entertainment services. If we are unable to generate

revenue from live television or if other entertainment services do not ultimately develop, our growth and financial prospects would be materially adversely impacted.

We are working to acquire a sufficient number of on-demand movies and television shows and a variety of other content on our system. The future growth prospects for our business depend, in part, on revenue from advertising fees and e-commerce revenue share arrangements on passenger purchases of goods and services, including video and media services. Our ability to generate revenue from these service offerings depends on:

- growth of commercial airline customer base;
- the attractiveness of our customer base to media partners;
- rolling out live television and media on demand on more aircraft and with additional airline customers and increasing passenger adoption both in the U.S. and abroad;
- establishing and maintaining beneficial contractual relationships with media partners whose content, products and services are attractive to airline passengers; and
- our ability to customize and improve our service offerings in response to trends and customer interests.

If we are unsuccessful in generating revenue from our service offerings, that failure could have a material adverse effect on our growth prospects.

We face limitations on our ability to grow our operations which could harm our operating results and financial condition.

We have not yet begun selling our IFEC products or services to our future customers. Our addressable market and our ability to expand in our operating region is inherently limited by various factors, including limitations on the number of commercial airlines with which we could partner, the number of planes in which our equipment can be installed, the passenger capacity within each plane and the ability of our network infrastructure or bandwidth to accommodate increasing capacity demands. Future expansion is also limited by our ability to develop new technologies on a timely and cost-effective basis, as well as our ability to mitigate network capacity constraints through, among other things, the expansion of our satellite coverage area. Our future growth may slow, or once we begin selling products and services to our customers, we may stop growing altogether, to the extent that we have exhausted all potential airline partners and as we approach installation on full fleets and maximum penetration rates on all flights. In order to grow our future revenue, we will have to rely on customer and airline partner adoption of currently available and new or developing services and additional offerings. We cannot assure you that we will be able to obtain a market presence or establish new markets and, if we fail to do so, our business and results of operations could be materially adversely affected.

We may be unsuccessful in expanding our operations internationally.

Our business will initially be international business. Our ability to grow our international business involves various risks, including the need to invest significant resources in unfamiliar markets and the possibility that we may not realize a return on our investments in the near future or at all. In addition, we have incurred and expect to continue to incur significant expenses before we generate any material revenue in these new markets. Under our agreements with providers of satellite capacity, we are obligated to purchase bandwidth for specified periods in advance. If we are unable to generate sufficient passenger demand or airline partners to which we provide satellite service to their aircraft terminate their agreements with us for any reason during these periods, we may be forced to incur satellite costs in excess of connectivity revenue generated through such satellites.

Any future international operations may fail to succeed due to risks inherent in foreign operations, including:

- legal and regulatory restrictions, including different communications, privacy, censorship, aerospace and liability standards, intellectual property laws and enforcement practices;
- changes in international regulatory requirements and tariffs;

- restrictions on the ability of U.S. companies to do business in foreign countries, including restrictions on foreign ownership of telecommunications providers imposed by the U.S. Office of Foreign Assets Control, which we refer to as OFAC;
- inability to find content or service providers to partner with on commercially reasonable terms, or at all;
- compliance with the Foreign Corrupt Practices Act, the (U.K.) Bribery Act 2010 and other similar corruption laws and regulations in the jurisdictions in which we operate and related risks;
- difficulties in staffing and managing foreign operations;
- currency fluctuations; and
- potential adverse tax consequences.

As a result of these obstacles, we may find it difficult or prohibitively expensive to grow our business internationally or we may be unsuccessful in our attempt to do so, which could harm our future operating results and financial condition.

We may not be successful in our efforts to develop and monetize new products and services that are currently in development, including our operations-oriented IFEC communications services.

In order to continue to meet the evolving needs of our future airline partners and customers, we must continue to develop new products and services that are responsive to those needs. Our ability to realize the benefits of enabling airlines, other aircraft operators and to use these applications, including monetizing our services at a profitable price point, depends, in part, on the adoption and utilization of such applications by airlines, other aircraft operators and other companies in the aviation industry such as aircraft equipment suppliers, and we cannot be certain that airlines, other aircraft operators and others in the aviation industry will adopt such offerings in the near term or at all. We also expect to continue to rely on third parties to develop and offer the operational applications to be used to gather and process data transmitted on our network between the aircraft and the ground, and we cannot be certain that such applications will be compatible with our network or onboard equipment or otherwise meet the needs of airlines or other aircraft operators. If we are not successful in our efforts to develop and monetize new products and services, including our operations-oriented communications services, our future business prospects, financial condition and results of operations would be materially adversely affected.

A future act or threat of terrorism or other events could result in a prohibition on the use of Wi-Fi enabled devices on aircraft.

A future act of terrorism, the threat of such acts or other airline accidents could have an adverse effect on the airline industry. In the event of a terrorist attack, terrorist threats or unrelated airline accidents, the industry would likely experience significantly reduced passenger demand. The U.S. federal government or foreign governments could respond to such events by prohibiting the use of Wi-Fi enabled devices on aircraft, which would eliminate demand for our equipment and service. In addition, any association or perceived association between our equipment or service and accidents involving aircraft on which our equipment or service operates would likely have an adverse effect on demand for our equipment and service. Reduced demand for our products and services would adversely affect our business prospects, financial condition and results of operations.

If our efforts to retain and attract customers are not successful, our revenue will be adversely affected.

We expect to generate substantially all of our revenue from sales of services, some of which will be on a subscription basis. We must be able to retain subscribers and attract new and repeat customers. If we are unable to effectively retain subscribers and attract new and repeat customers, our business, financial condition and results of operations would be adversely affected.

Unreliable service levels, lack of sufficient capacity, uncompetitive pricing, lack of availability, security risk and lack of related features of our equipment and services are some of the factors that may adversely impact our ability to retain customers and partners and attract new and repeat customers. If our customers are able to satisfy their in-flight entertainment needs through activities other than broadband internet access, at no or lower

cost, they may not perceive value in our products and services. If our efforts to satisfy and retain customers and subscribers are not successful, we may not be able to attract new customers through word-of-mouth referrals. Any of these factors could cause our customer growth rate to fall, which would adversely impact our business, financial condition and results of operations.

The demand for in-flight broadband internet access service may decrease or develop more slowly than we expect. We cannot predict with certainty the development of the U.S. or international in-flight broadband internet access market or the market acceptance for our products and services.

Our future success depends upon growing demand for in-flight broadband internet access services, which is inherently uncertain. We have invested significant resources towards the roll-out of new IFEC service offerings, which represent a substantial part of our growth strategy. We face the risk that the U.S. and international markets for in-flight broadband internet access services may decrease or develop more slowly or differently than we currently expect, or that our services, including our new offerings, may not achieve widespread market acceptance. We may be unable to market and sell our services successfully and cost-effectively to a sufficiently large number of customers.

Our business depends on the continued proliferation of Wi-Fi as a standard feature in mobile devices. The growth in demand for in-flight broadband internet access services also depends in part on the continued and increased use of laptops, smartphones, tablet computers, and other Wi-Fi enabled devices and the rate of evolution of data-intensive applications on the mobile internet. If Wi-Fi ceases to be a standard feature in mobile devices, if the rate of integration of Wi-Fi on mobile devices decreases or is slower than expected, or if the use of Wi-Fi enabled devices or development of related applications decreases or grows more slowly than anticipated, the market for our services may be substantially diminished.

Increased costs and other demands associated with our growth could impact our ability to achieve profitability over the long term and could strain our personnel, technology and infrastructure resources.

We expect our costs to increase in future periods, which could negatively affect our future operating results. We expect to experience growth in our headcount and operations, which will place significant demands on our management, administrative, technological, operational and financial infrastructure. Anticipated future growth will require the outlay of significant operating and capital expenditures and will continue to place strains on our personnel, technology and infrastructure. Our success will depend in part upon our ability to contain costs with respect to growth opportunities. To successfully manage the expected growth of our operations, on a timely and cost-effective basis we will need to continue to improve our operational, financial, technological and management controls and our reporting systems and procedures. In addition, as we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, and we must maintain the beneficial aspects of our corporate culture. If we fail to successfully manage our growth, it could adversely affect our business, financial condition and results of operations.

Adverse economic conditions may have a material adverse effect on our business.

Macro-economic challenges are capable of creating volatile and unpredictable environments for doing business. We cannot predict the nature, extent, timing or likelihood of any economic slowdown or the strength or sustainability of any economic recovery, worldwide, in the United States or in the airline industry. For many travelers, air travel and spending on in-flight internet access are discretionary purchases that they can eliminate in difficult economic times. Additionally, a weaker business environment may lead to a decrease in overall business travel, which is an important contributor to our service revenue. These conditions may make it more difficult or less likely for customers to purchase our equipment and services. If economic conditions in the United States or globally deteriorate further or do not show improvement, we may experience material adverse effects to our business, cash flow and results of operations.

Our operating results may fluctuate unpredictably and may cause us to fail to meet the expectations of investors, adversely affecting our stock price.

We operate in a highly dynamic industry and our future quarterly operating results may fluctuate significantly. Our future revenue and operating results may vary from quarter to quarter due to many factors, many of which are not within our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Further, it is difficult to accurately forecast our revenue, margin and operating results, and if

we fail to match our expected results or the results expected by financial analysts or investors, the future trading price of our Common Stock may be adversely affected.

In addition, due to generally lower demand for business travel during the summer months and holiday periods, and leisure and other travel at other times during the year, our quarterly results may not be indicative of results for the full year. Due to these and other factors, quarter-to-quarter comparisons of our historical operating results should not be relied upon as accurate indicators of our future performance.

If our marketing and advertising efforts fail to generate revenue on a cost-effective basis, or if we are unable to manage our marketing and advertising expenses, it could harm our results of operations and growth.

Our future growth and profitability, as well as the maintenance and enhancement of our brands, will depend in large part on the effectiveness and efficiency of our future marketing and advertising expenditures. We plan to use a diverse mix of television, print, trade show and online marketing and advertising programs to promote our business. Significant increases in the pricing of one or more of our marketing and advertising channels could increase our expenses or cause us to choose less expensive, but potentially less effective, marketing and advertising channels. In addition, to the extent we implement new marketing and advertising strategies, we may in the future have significantly higher expenses. We may in the future incur, marketing and advertising expenses significantly in advance of the time we anticipate recognizing revenue associated with such expenses, and our marketing and advertising expenditures may not result in increased revenue or generate sufficient levels of brand awareness. If we are unable to maintain our marketing and advertising channels on cost-effective terms, our marketing and advertising expenses could increase substantially, our customer levels could be affected adversely, and our business, financial condition and results of operations may suffer.

Regulation by United States and foreign government agencies, including the Federal Aviation Administration and the Federal Communications Commission, may increase our costs of providing service or require us to change our services.

We are subject to various regulations, including those regulations promulgated by various federal, state and local regulatory agencies and legislative bodies and comparable agencies outside the United States where we may do business. The two U.S. government agencies that have primary regulatory authority over our operations are the Federal Aviation Administration, or FAA, and the Federal Communications Commission, or FCC.

The commercial and private aviation industries, including civil aviation manufacturing and repair industries, are highly regulated in the United States by the FAA. FAA certification is required for all equipment we install on commercial aircraft and type certificated business aircraft, and certain of our operating activities require that we obtain FAA certification as a parts manufacturer. As discussed in more detail in the section entitled “Business—Regulations—Federal Aviation Administration,” FAA approvals required to operate our business include Supplemental Type Certificates, or STCs and Parts Manufacturing Authorities, or PMAs. Obtaining STCs and PMAs is an expensive and time-consuming process that requires significant focus and resources. Any inability to obtain, delay in obtaining, or change in, needed FAA certifications, authorizations, or approvals, could have an adverse effect on our ability to meet our installation commitments, manufacture and sell parts for installation on aircraft, or expand our business and could, therefore, materially adversely affect our growth prospects, business and operating results. The FAA closely regulates many of our operations. If we fail to comply with the FAA’s many regulations and standards that apply to our activities, we could lose the FAA certifications, authorizations, or other approvals on which our manufacturing, installation, maintenance, preventive maintenance, and alteration capabilities are based. In addition, from time to time, the FAA or comparable foreign agencies adopt new regulations or amend existing regulations. The FAA could also change its policies regarding the delegation of inspection and certification responsibilities to private companies, which could adversely affect our business. To the extent that any such new regulations or amendments to existing regulations or policies apply to our activities, those new regulations or amendments to existing regulations generally increase our costs of compliance.

As a broadband Internet provider, we must comply with the Communications Assistance for Law Enforcement Act of 1994, or CALEA, which requires communications carriers to ensure that their equipment, facilities and services can accommodate certain technical capabilities in executing authorized wiretapping and other electronic surveillance. Currently, our CALEA solution is being deployed in our network. However, we could be subject to an enforcement action by the FCC or law enforcement agencies for any delays related to meeting, or if we fail to comply with, any current or future CALEA, or similarly mandated law enforcement related, obligations. Such enforcement actions could subject us to fines, cease and desist orders, or other penalties, all of which could adversely affect our business. Further, to the extent the FCC adopts additional capability

requirements applicable to broadband Internet providers, its decision may increase the costs we incur to comply with such regulations.

In addition to these U.S. agencies, we are also subject to regulation by foreign government agencies that choose to assert jurisdiction over us as a result of the service we provide on aircraft that fly international routes. Adverse decisions or regulations of these U.S. and foreign regulatory bodies could negatively impact our operations and costs of doing business and could delay the roll-out of our services and have other adverse consequences for us. Our ability to obtain certain regulatory approvals to offer our services internationally may also be the responsibility of a third party, and, therefore, may be out of our control. We are unable to predict the scope, pace or financial impact of regulations and other policy changes that could be adopted by the various governmental entities that oversee portions of our business.

If government regulation of the Internet, including e-commerce or online video distribution changes, we may need to change the way we conduct our business to a manner that incurs greater operating expenses, which could harm our results of operations.

The current legal environment for Internet communications, products and services is uncertain and subject to statutory, regulatory or interpretive change. We cannot be certain that we, our vendors and media partners or our customers are currently in compliance with applicable regulatory or other legal requirements in the countries in which our service is used. Our failure, or the failure of our vendors and media partners, customers and others with whom we transact business to comply with existing or future legal or regulatory requirements could materially adversely affect our business, financial condition and results of operations. Regulators may disagree with our interpretations of existing laws or regulations or the applicability of existing laws or regulations to our business, and existing laws, regulations and interpretations may change in unexpected ways.

For example, our mobile wireless broadband Internet access services were previously classified as information services, and not as telecommunications services. Therefore, these services were not subject to FCC common carrier regulation. However, effective June 12, 2015, the FCC reclassified mobile (and fixed) broadband Internet access services as Title II telecommunications services pursuant to the Open Internet Order. The Open Internet Order also adopted broad new net neutrality rules. For example, broadband providers may not block access to lawful content, applications, services, or non-harmful devices. Broadband providers also may not impair or degrade lawful Internet traffic on the basis of content, applications, services, or non-harmful devices. In addition, broadband providers may not favor some lawful Internet traffic over other lawful traffic in exchange for consideration of any kind, and they may not prioritize the content and services of their affiliates. Other than for paid prioritization, the rules contain an exception for “reasonable network management.” The Open Internet Order recognizes that whether a network management practice is reasonable varies according to the broadband technology involved and may provide more flexibility to implement network management practices in the context of our capacity-constrained air-to-ground and satellite broadband networks.

Other jurisdictions may adopt similar or different regulations that could affect our ability to use “network management” techniques. Likewise, the United States and the European Union, among other jurisdictions, are considering proposals regarding data protection that, if adopted, could impose heightened restrictions on certain of our activities relating to the collection and use of data of end users. Further, as we promote exclusive content and services and increase targeted advertising with our media partners to customers of our services, we may attract increased regulatory scrutiny.

We cannot be certain what positions regulators may take regarding our compliance with, or lack of compliance with, current and future legal and regulatory requirements or what positions regulators may take regarding any past or future actions we have taken or may take in any jurisdiction. Regulators may determine that we are not in compliance with legal and regulatory requirements, and impose penalties, or we may need to make changes to our services, which could be costly and difficult. Any of these events would adversely affect our operating results and business.

Our possession and use of personal information and the use of credit cards by our customers present risks and expenses that could harm our business. Unauthorized disclosure or manipulation of such data, whether through breach of our network security or otherwise, could expose us to costly litigation and damage our reputation.

Maintaining our network security is of critical importance because our online systems will store confidential registered user, employee and other sensitive data, such as names, email addresses, addresses and

other personal information. We will depend on the security of our networks and the security of the network infrastructures of our third-party telecommunications service providers, our customer support providers and our other vendors. Unauthorized use of our, or our third-party service providers', networks, computer systems and services could potentially jeopardize the security of confidential information, including credit card information, of our future customers. There can be no assurance that any security measures we, or third parties, take will be effective in preventing these activities. As a result of any such breaches, customers may assert claims of liability against us as a result of any failure by us to prevent these activities. Further, our in-cabin network operates as an open, unsecured Wi-Fi hotspot, and non-encrypted transmissions users send over this network may be vulnerable to access by users on the same plane. These activities may subject us to legal claims, adversely impact our reputation, and interfere with our ability to provide our services, all of which could have a material adverse effect on our business prospects, financial condition and results of operations.

Failure to protect confidential customer data or to provide customers with adequate notice of our privacy policies could also subject us to liabilities imposed by United States federal and state regulatory agencies or courts. For example, the FCC's Consumer Proprietary Network Information, or CPNI rules, applicable to our satellite-based offerings, require us to comply with a range of marketing and privacy safeguards. The Federal Trade Commission, or FTC, could assert jurisdiction to impose penalties related our service if it found our privacy policies or security measures to be inadequate under existing federal law. We could also be subject to certain state laws that impose data breach notification requirements, specific data security obligations, or other consumer privacy-related requirements. Our failure to comply with any of these rules or regulations could have an adverse effect on our business, financial condition and results of operations.

Other countries in which we may operate or from which our services may be offered, including those in the European Union, also have certain privacy and data security requirements that may apply to our business, either now or in the future. These countries' laws may in some cases be more stringent than the requirements in the United States. For example, European Union member countries have specific requirements relating to cross border transfers of personal information to certain jurisdictions, including to the United States. In addition, some countries have stricter consumer notice and/or consent requirements relating to personal information collection, use or sharing. Moreover, international privacy and data security regulations may become more complex. For example, the European Union is considering a draft proposed data protection regulation which, if enacted, may result in even more restrictive privacy-related requirements. Our failure to comply with other countries' privacy or data security-related laws, rules or regulations could also have an adverse effect on our business, financial condition and results of operations.

In addition, our customers will use credit cards to purchase our products and services. Problems with our or our vendors billing software could adversely affect our customer satisfaction and could cause one or more of the major credit card companies to disallow our continued use of their payment services. In addition, if our billing software fails to work properly and, as a result, we do not automatically charge our subscribers' credit cards on a timely basis or at all, our business, financial condition and results of operations could be adversely affected.

We depend upon third parties to manufacture equipment components and to provide services for our network.

We rely on third-party suppliers for equipment components that we use to provide our services. The supply of third-party components could be interrupted or halted by a termination of our relationships, a failure of quality control or other operational problems at such suppliers or a significant decline in their financial condition. If we are not able to continue to engage suppliers with the capabilities or capacities required by our business, or if such suppliers fail to deliver quality products, parts, equipment and services on a timely basis consistent with our schedule, our business prospects, financial condition and results of operations could be adversely affected.

We may fail to recruit, train and retain the highly skilled employees that are necessary to remain competitive and execute our growth strategy. The loss of one or more of our key personnel could harm our business.

Competition for key technical personnel in high-technology industries such as ours is intense. We believe that our future success depends in large part on our continued ability to hire, train, retain and leverage the skills of qualified engineers and other highly skilled personnel needed to maintain and grow our business and technology. We may not be as successful as our competitors at recruiting, training, retaining and utilizing these highly skilled personnel. In particular, we may have more difficulty attracting or retaining highly skilled personnel during periods of poor operating performance. Any failure to recruit, train and retain highly skilled employees could negatively impact our business and results of operations.

We depend on the continued service and performance of our key personnel, including Louis Giordimaina, our Chief Executive Officer, Jeffrey Wun, our President and Chief Technology Officer, and Georges Caldironi, our Chief Operating Officer. Such individuals have acquired specialized knowledge and skills with respect to our operations. As a result, if any of these individuals were to leave us, we could face substantial difficulty in hiring qualified successors and could experience a loss of productivity while any such successor obtains the necessary training and expertise. We do not maintain key man insurance on any of our officers or key employees. The loss of key personnel, including key members of our management team, as well as certain of our key marketing or technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business.

We have identified material weaknesses in our internal control over financial reporting. If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results and prevent fraud. As a result, current and potential stockholders could lose confidence in our financial statements, which would harm the trading price of our Common Stock.

Companies that file reports with the SEC, including us, are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404. SOX 404 requires management to establish and maintain a system of internal control over financial reporting and annual reports on Form 10-K filed under the Exchange Act to contain a report from management assessing the effectiveness of a company's internal control over financial reporting. Separately, under SOX 404, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, public companies that are large accelerated filers or accelerated filers must include in their annual reports on Form 10-K an attestation report of their regular auditors attesting to and reporting on management's assessment of internal control over financial reporting. Non-accelerated filers and smaller reporting companies, like us, are not required to include an attestation report of their auditors in annual reports.

We are a smaller reporting company and, consequently, are not required to include an attestation report of our auditor in our annual transition report. However, if and when we become subject to the auditor attestation requirements under SOX 404, we can provide no assurance that we will receive a positive attestation from our independent auditors.

During its evaluation of the effectiveness of internal control over financial reporting as of June 30, 2020, management identified a material weakness. The material weakness was associated with our lack of sufficient and skilled accounting personnel with an appropriate level of technical accounting knowledge and experience in the application of accounting principles generally accepted in the United States commensurate with our financial reporting requirements and our need to rely heavily on the use of external legal and accounting professionals to mitigate these deficiencies. We are undertaking remedial measures, which measures will take time to implement and test, to address this material weakness. There can be no assurance that such measures will be sufficient to remedy the material weakness identified or that additional material weaknesses or other control or significant deficiencies will not be identified in the future. If we continue to experience material weaknesses in our internal controls or fail to maintain or implement required new or improved controls, such circumstances could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements, or adversely affect the results of periodic management evaluations and, if required, annual auditor attestation reports. Each of the foregoing results could cause investors to lose confidence in our reported financial information and lead to a decline in our stock price and Bonds price.

We believe our business depends on strong brands, and if we do not develop, maintain and enhance our brand, our ability to gain new customers and retain customers may be impaired.

We believe that our brands will be a critical part of our business. We expect to collaborate extensively with our future airline partners on the look and feel of the in-flight homepage that their passengers encounter when logging into our service in flight. In order to maintain strong relationships with our airline partners, we may have to reduce the visibility of our brand or make other decisions that do not promote and maintain our brand. In addition, many of our trademarks contain words or terms having a somewhat common usage and, as a result, we may have trouble registering or protecting them in certain jurisdictions. If we fail to promote and maintain our brand, or if we incur significant expenses to promote the brands and are still unsuccessful in maintaining strong brands, our business prospects, financial condition and results of operations may be adversely affected.

Businesses or technologies we acquire could prove difficult to integrate, disrupt our ongoing business, dilute stockholder value or have an adverse effect on our results of operations.

As part of our business strategy, we may engage in acquisitions of businesses or technologies to augment our organic or internal growth. We do not have any relevant experience with integrating and managing acquired businesses or assets. Acquisitions involve challenges and risks in negotiation, execution, valuation and integration. Moreover, we may not be able to find suitable acquisition opportunities on terms that are acceptable to us. Even if successfully negotiated, closed and integrated, certain acquisitions may not advance our business strategy, may fall short of expected return-on-investment targets or may fail. Any future acquisition could involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- difficulty integrating the operations and products of the acquired business;
- use of cash to fund the acquisition or for unanticipated expenses;
- limited market experiences in new businesses;
- exposure to unknown liabilities, including litigation against the companies we acquire;
- additional costs due to differences in culture, geographical locations and duplication of key talent;
- delays associated with or resources being devoted to regulatory review and approval;
- acquisition-related accounting charges affecting our balance sheet and operations;
- difficulty integrating the financial results of the acquired business in our consolidated financial statements;
- controls in the acquired business;
- potential impairment of goodwill;
- dilution to our current stockholders from the issuance of equity securities; or
- potential loss of key employees or customers of the acquired company.

In the event that we enter into any acquisition agreements, closing of the transactions could be delayed or prevented by regulatory approval requirements, including antitrust review, or other conditions. We may not be successful in addressing these risks or any other problems encountered in connection with any attempted acquisitions, and we could assume the economic risks of such failed or unsuccessful acquisitions.

Expenses or liabilities resulting from litigation could adversely affect our results of operations and financial condition.

From time to time, we may be subject to claims or litigation in the ordinary course of our business, including for example, claims related to employment matters and class action lawsuits. Our operations are characterized by the use of new technologies and services across multiple jurisdictions that implicate a number of statutory schemes and a range of rules and regulations that may be subject to broad or creative interpretation, which may subject to us to litigation, including class action lawsuits, the outcome of which may be difficult to assess or quantify due to the potential ambiguity inherent in these regulatory schemes and/or the nascence of our technologies and services. Plaintiffs in these types of litigation may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. Any such claims or litigation may be time-consuming and costly, divert management resources, require us to change our products and services, or have other adverse effects on our business. Any of the foregoing could have a material adverse effect on our results of operations and could require us to pay significant monetary damages. In addition, costly and time-consuming litigation could be necessary to enforce our existing contracts

and, even if successful, could have an adverse effect on us. In addition, prolonged litigation against any airline partner, customer or supplier could have the effect of negatively impacting our reputation and goodwill with existing and potential airline partners, customers and suppliers.

Technological advances may harm our business.

Due to the widening use of state-of-the-art, personal electronic devices such as Apple's iPad, ever-increasing numbers of passengers have their own mobile devices, which they might use to bring their own content such as movies, music or games with them on a flight. This could decrease demand for our in-flight offerings. Carriers now also have greater technical means at their disposal to offer passengers in-flight access to the Internet, including through our offerings and those of our competitors. At present, these offerings do not allow passengers to fully stream content on their mobile devices. If, however, in-flight Internet access in the future allows passengers to fully stream content on their mobile devices, this could decrease demand for our in-flight offerings. While both trends will give rise to risks as well as opportunities for us, it is impossible to foresee at present whether and, if so, to what extent these trends will have lasting effects. Note, too, that the in-flight entertainment systems currently in place are unable to support these developments. Given average useful lives of 15 to 20 years, the conventional systems will continue to dominate the in-flight entertainment industry for the foreseeable future. As a result, possible changes will happen slowly, giving all market players sufficient time to adapt.

We may have exposure to foreign currency risks in the future and our future hedging activities could create losses.

Currency risks essentially arise from the fact that sales to customers and purchasing are effected in one currency while fixed costs are incurred in other currencies. If necessary, we will engage in hedging transactions to counteract direct currency risks. However, we cannot always guarantee that all currency risks will have been hedged in full. Severe currency fluctuations could also cause the hedging transactions to fail if agreed thresholds (triggers) are not met or exceeded. We therefore cannot fully preclude negative foreign currency effects in the future - some of which might be substantial - due to unforeseen exchange rate fluctuations and/or inaccurate assessments of market developments.

We will source our content from studios, distributors and other content providers, and any reduction in the volume of content produced by such content providers could hurt our business by providing us with less quality content to choose from and resulting in potentially less attractive offerings for passengers.

We will receive content from studios, distributors and other content providers, and in some circumstances, we will depend on the volume and quality of the content that these content providers produce. If studios, distributors or other content providers were to reduce the volume or quality of content they make available to us over any given time period, whether because of their own financial limitations or other factors influencing their businesses, we would have less quality content to choose from and our programmers would have more difficulty finding relevant and appropriate content to provide to our customers. This could negatively impact the passenger experience, which could in turn reduce the demand for our offerings, which would have a negative impact on our revenue and results of operations.

We are a holding company with no operations of our own, and we depend on our subsidiaries for cash.

Currently, we are a holding company and do not have any material assets or operations other than ownership of equity interests of our subsidiaries. Our operations are conducted almost entirely through our subsidiaries, and our ability to generate cash to meet our obligations or to pay dividends is highly dependent on the earnings of, and receipt of funds from, our subsidiaries through dividends or intercompany loans. The ability of our subsidiaries to generate sufficient cash flow from future operations to allow us and them to make scheduled payments on our obligations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. We cannot assure you that the cash flow and future earnings of our operating subsidiaries will be adequate for our subsidiaries to service their debt obligations. If our subsidiaries do not generate sufficient cash flow from future operations to satisfy corporate obligations, we may have to: undertake alternative financing plans (such as refinancing), restructure debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. We cannot assure you that any such alternative refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our obligations, or to refinance

our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations. Furthermore, we and our subsidiaries may incur substantial additional indebtedness in the future that may severely restrict or prohibit our subsidiaries from making distributions, paying dividends or making loans to us.

Risks Relating to our Industry

Our business is highly dependent on the airline industry, which is itself affected by factors beyond the airlines' control. The airline industry is highly competitive and sensitive to changing economic conditions.

Our business is directly affected by the number of passengers flying on commercial aircraft, the financial condition of the airlines and other economic factors. If consumer demand for air travel declines, including due to increased use of technology such as videoconferencing for business travelers, or the number of aircraft and flights shrinks due to, among other reasons, reductions in capacity by airlines, the number of passengers available to use our service will be reduced, which would have a material adverse effect on our business and results of operations. Unfavorable general economic conditions and other events that are beyond the airlines' control, including higher unemployment rates, higher interest rates, reduced stock prices, reduced consumer and business spending, terrorist attacks or threats and pandemics could have a material adverse effect on the airline industry. A general reduction or shift in discretionary spending can result in decreased demand for leisure and business travel and lead to a reduction in airline flights offered and the number of passengers flying. Further, unfavorable economic conditions could also limit airlines' ability to counteract increased fuel, labor or other costs through raised prices. Our airline partners operate in a highly competitive business market and, as a result, continue to face pressure on offerings and pricing. These unfavorable conditions and the competitiveness of the air travel industry could cause one or more of our airline partners to reduce expenditures on passenger services including deployment of our service or file for bankruptcy. Any of these events would have a material adverse effect on our business prospects, financial condition and results of operations.

Air traffic congestion at airports, air traffic control inefficiencies, weather conditions, such as hurricanes or blizzards, increased security measures, new travel-related taxes, the outbreak of disease or any other similar event could harm the airline industry.

Airlines are subject to cancellations or delays caused by factors beyond their control. Cancellations or delays due to weather conditions or natural disasters, air traffic control problems, breaches in security or other factors could reduce the number of passengers on commercial flights and thereby reduce demand for the services provided by us and our products and services and harm our businesses, results of operations and financial condition.

The COVID-19 pandemic may result in a contraction in the global airline industry, the bulk of which likely would be borne by carriers in the Asia-Pacific region. As a development stage IFEC service provider with an emphasis on Asia Pacific, the outbreak of the coronavirus may have a material adverse effect on our business, results of operation, financial condition and stock price.

On January 30, 2020, the World Health Organization, or WHO, declared the coronavirus outbreak in China a public health emergency of international concern and on March 11, 2020, the WHO declared the outbreak a pandemic. In recent months, coronavirus cases have surged outside of China, spreading throughout the world. Given the high public health risks associated with the disease, governments around the world have imposed various degrees of travel and gathering restrictions and other quarantine measures. The coronavirus outbreak is currently having an indeterminable adverse impact on the global economy.

The coronavirus has a particular adverse impact on the airline industry. The outbreak in China and throughout the world since December 2019 has led to a precipitous decrease in the number of daily departures and arrivals for domestic and international flights. According to the International Air Transport Association (IATA) Airlines Financial Monitor dated April – May 2020, air passenger demand posted its largest decline on record in April 2020 due to the widespread lockdowns and border closures and the passenger load factor declined by 41% versus last year. In May 2020, airlines started to return aircraft to service with the relaxation of lockdown measures. An additional 2,444 aircraft re-joined the in-service fleets in the same month. As a result, total seat capacity improved by 25% compared to the previous month. However, total seat capacity was still 49% below the level of a year ago. New global aircraft deliveries were limited (16 aircraft) in May as airlines have been postponing or cancelling future deliveries in response to the COVID-19 crisis. As travel demand is expected to recover only gradually, airlines will likely remain cautious regarding capacity increases. IATA expects domestic

aviation markets will recover faster than international markets. Its data shows that traffic volumes likely bottomed in April 2020 and will gradually recover, with the initial improvements impacting domestic travel. Of course, there can be no guarantees that an industry recovery will continue or be sustained or that a resurgence of the coronavirus pandemic will not reverse recent gains made in the airlines industry.

As a development stage IFEC service provider with a focus on Asia Pacific, we are vulnerable to any contraction in the airline industry across the region, and we believe our business may be adversely affected by the coronavirus epidemic. Our operations in Asia Pacific are conducted through our subsidiaries in the region, including Aircom HK, Aircom Japan, Aircom Taiwan and Aircom Seychelles. Currently, the primary role of these subsidiaries is business development with respect to airlines and local content providers and advertising partners. The coronavirus epidemic has slowed down the operations of our Asia-Pacific subsidiaries. In addition, we plan to locate our first ground station in Taiwan, the implementation of which could be delayed by the coronavirus epidemic.

Furthermore, fears of the economic impacts of the coronavirus have sparked the deepest weekly slides in publicly traded securities since the 2008 financial crisis. The volatility of stock prices and an across-the-market selloffs may depress our stock price, and moreover, adversely affect our ability to obtain equity or debt financings from the financial markets.

Given the uncertainty of the outbreak, the spread of the coronavirus may be prolonged and worsened. If this outbreak persists, commercial activities throughout the world could be curtailed with decreased consumer spending, business operation disruptions, interrupted supply chain, difficulties in travel, and reduced workforces. The duration and intensity of disruptions resulting from the epidemic is uncertain. It is unclear as to when the outbreak will be contained, and we also cannot predict if the impact will be short-lived or long-lasting. The extent to which the coronavirus impacts our operations and financial results will depend on its future developments. If the coronavirus outbreak is not effectively controlled in a short period of time, our business operation, financial condition and stock price may be materially and adversely affected as a result of a slowdown in economic growth, a contraction in the airline sector, depressed customer demand, operation disruptions or other factors that we cannot foresee.

Risks Relating to our Technology and Intellectual Property

We could be adversely affected if we suffer service interruptions or delays, technology failures or damage to our equipment.

Our reputation and ability to attract, retain and serve our future commercial airline customers will depend upon the reliable performance of our satellite transponder capacity, network infrastructure and connectivity system. We have experienced interruptions in these systems in the past, including component and service failures that temporarily disrupted users' access to the Internet, and we may experience service interruptions, service delays or technology or systems failures in the future, which may be due to factors beyond our control. If we experience frequent system or network failures, our reputation could be harmed and our future airline customers may have the right to terminate their contracts with us or pursue other remedies.

Our operations and services will depend upon the extent to which our equipment and the equipment of our third-party network providers is protected against damage from fire, flood, earthquakes, power loss, solar flares, telecommunication failures, computer viruses, break-ins, acts of war or terrorism and similar events. Damage to our networks could cause interruptions in the services that we will provide, which could have a material adverse effect on service revenue, our reputation and our ability to attract or retain customers.

We rely on service providers for certain critical components of and services relating to our satellite connectivity network.

We currently source key components of our hardware, including the aircraft installed satellite antenna, from third parties and key aspects of our connectivity services, including all of our satellite transponder services from SKY Perfect JSAT Corporation. While we have written contracts with these key component and service providers, if we experience a disruption in the delivery of products and services from either of these providers, it may be difficult for us to continue providing our own products and services to our customers. We have experienced component delivery issues in the past and there can be no assurance that we will avoid similar issues in the future. Additionally, the loss of the exclusive source protections that we have with our hardware provider could eliminate

our competitive advantage in the use of satellites for in-flight connectivity, which could have a material adverse effect on our business and operations.

Assertions by third parties of infringement, misappropriation or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and operating results.

In recent years, there has been significant litigation involving intellectual property rights in many technology-based industries, including the wireless communications industry. Any infringement, misappropriation or related claims, whether or not meritorious, is time-consuming, diverts technical and management personnel and is costly to resolve. As a result of any such dispute, we may have to develop non-infringing technology, pay damages, enter into royalty or licensing agreements, cease providing certain products or services or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us. Certain of our suppliers do not provide indemnity to us for the use of the products and services that these providers supply to us. At the same time, we generally offer third-party intellectual property infringement indemnity to our customers which, in some cases, does not cap our indemnity obligations and thus could render us liable for both defense costs and judgments. Any of these events could result in increases in operating expenses, limit our service offerings or result in a loss of business if we are unable to meet our indemnification obligations and our airline customers terminate or fail to renew their contracts.

We may not be able to protect our intellectual property rights.

We regard our trademarks, service marks, copyrights, patents, trade secrets, proprietary technologies, domain names and similar intellectual property as important to our success. We rely on trademark, copyright and patent law, trade secret protection and confidentiality agreements with our employees, vendors, airline customers, customers and others to protect our proprietary rights. We have sought and obtained patent protection for certain of our technologies in the United States and certain other countries. Many of the trademarks that we use contain words or terms having a somewhat common usage and, as a result, we may have difficulty registering them in certain jurisdictions. We have not yet obtained registrations for our most important marks in all markets in which we may do business in the future, including countries in Asia, Africa and the Middle East. If other companies have registered or have been using in commerce similar trademarks for services similar to ours in foreign jurisdictions, we may have difficulty in registering, or enforcing an exclusive right to use, our marks in those foreign jurisdictions.

There can be no assurance that our efforts to protect our proprietary rights will be sufficient or effective, that any pending or future patent and trademark applications will lead to issued patents and registered trademarks in all instances, that others will not develop or patent similar or superior technologies, products or services, or that our patents, trademarks and other intellectual property will not be challenged, invalidated, misappropriated or infringed by others. Additionally, the intellectual property laws and enforcement practices of other countries in which our service is or may in the future be offered may not protect our products and intellectual property rights to the same extent as the laws of the United States. If we are unable to protect our intellectual property from unauthorized use, our brand image may be harmed and our business and results of operations may suffer.

Our use of open source software could limit our ability to commercialize our technology.

Open source software is software made widely and freely available to the public in human-readable source code form, usually with liberal rights to modify and improve such software. Some open source licenses require as a condition of use that proprietary software that is combined with licensed open source software and distributed must be released to the public in source code form and under the terms of the open source license. Accordingly, depending on the manner in which such licenses were interpreted and applied, we could face restrictions on our ability to commercialize certain of our products and we could be required to (i) release the source code of certain of our proprietary software to the public, including competitors; (ii) seek licenses from third parties for replacement software; and/or (iii) re-engineer our software in order to continue offering our products. Such consequences could materially adversely affect our business.

The satellites that we currently rely on or may rely on in the future have minimum design lives, but could fail or suffer reduced capacity before then.

The usefulness of the satellites upon which we currently rely and may rely on in the future is limited by each satellite's minimum design life. For example, the satellites through which we provide our service have minimum design lives ranging from 10 to 15 years. Our ability to offer in-flight connectivity and alleviate capacity

constraints throughout our network depends on the continued operation of the satellites or any replacement satellites, each of which has a limited useful life. We can provide no assurance, however, as to the actual operational lives of those or future satellites, which may be shorter than their design lives, nor can we provide assurance that replacement satellites will be developed, authorized or successfully deployed.

In the event of a failure or loss of any of these satellites, our satellite service providers may relocate another satellite and use it as a replacement for the failed or lost satellite, which could have an adverse effect on our business, financial condition and results of operations. Such a relocation may require regulatory approval, including through, among other things, a showing that the replacement satellite would not cause additional interference compared to the failed or lost satellite. We cannot be certain that our satellite service provider could obtain such regulatory approval. In addition, we cannot guarantee that another satellite will be available for use as a replacement for a failed or lost satellite, or that such relocation can be accomplished without disrupting or otherwise adversely impacting our business.

Satellites that are not yet in service are subject to construction and launch related risks.

Satellite construction and launch are subject to significant risks, including delays, launch failure and incorrect orbital placement. Launch failures result in significant delays in the deployment of satellites because of the need both to construct replacement satellites and to obtain other launch opportunities. Construction and launch delays could materially and adversely affect our ability to generate revenues.

A failure to raise sufficient capital will delay or prohibit our building of a satellite ground station and related data center, which will inhibit our business development.

Because our IFEC services will require the transmission and processing of large amounts of data, we will need to build satellite ground stations and related data centers in our regions of operation, to facilitate the effectiveness and efficiency of our IFEC services. If we are not able to raise an amount of capital sufficient to purchase land for and build a satellite ground station and data center near our area of operations, initially in the Asia region, we may not be able to provide our IFEC services in an efficient and operationally effective way and, as a result, our business prospects and results of operations could suffer.

Risks Relating to Ownership of our Common Stock

Our Common Stock is quoted on the OTCQX Best Market, which may have an unfavorable impact on our stock price and liquidity.

Our Common Stock is quoted on the OTCQX Best Market. The OTCQX Best Market is a significantly more limited market than the New York Stock Exchange or the Nasdaq Stock Market. The quotation of our shares on the OTCQX may result in a less liquid market available for existing and potential stockholders to trade shares of our Common Stock, could depress the trading price of our Common Stock and could have a long-term adverse impact on our ability to raise capital in the future.

Our Common Stock is quoted on the Professional Segment of the regulated market of Euronext Paris, which may have an unfavorable impact on our stock price and liquidity.

Since July 23, 2019, our Common Stock has also been listed on the Professional Segment of the regulated market of Euronext Paris under the symbol “AKOM”. The Professional Segment of the regulated market of Euronext Paris is a significantly more limited market than the regulated market of Euronext Paris (Compartment A, B or C). The quotation of our shares on the Professional Segment of the regulated market of Euronext Paris may result in a less liquid market available for existing and potential stockholders to trade shares of our Common Stock, could depress the trading price of our Common Stock and could have a long-term adverse impact on our ability to raise capital in the future.

We cannot predict the extent to which an active public trading market for our Common Stock will develop or be sustained. If an active public trading market does not develop or cannot be sustained, you may be unable to liquidate your investment in our Common Stock.

At present, there is minimal public trading in our Common Stock. We cannot predict the extent to which an active public market for our Common Stock will develop or be sustained due to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional

investors, and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares of Common Stock until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that an active public trading market for our Common Stock will develop or be sustained. If such a market cannot be sustained, you may be unable to liquidate your investment in our Common Stock.

Our Common Stock may be subject to significant price volatility which may have an adverse effect on your ability to liquidate your investment in our Common Stock.

The market for our Common Stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will be more volatile than a seasoned issuer for the indefinite future. The potential volatility in our share price is attributable to a number of factors. First, our shares of Common Stock may be sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our shares of Common Stock are sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price. Secondly, an investment in us is a speculative or “risky” investment due to our lack of meaningful profits to date and uncertainty of future profits. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer.

We may be subject to penny stock regulations and restrictions and you may have difficulty selling shares of our Common Stock.

The SEC has adopted regulations which generally define so-called “penny stocks” to be an equity security that has a market price less than US\$5.00 per share or an exercise price of less than US\$5.00 per share, subject to certain exemptions. Our Common Stock is not currently a “penny stock” and is not subject to Rule 15g-9 under the Exchange Act, or the Penny Stock Rule. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of US\$1,000,000 or annual incomes exceeding US\$200,000, or US\$300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our Common Stock will continue to qualify for exemption from the Penny Stock Rule if our stock price drops to the point where we become subject to the Penny Stock Rule, this rule could affect the ability of broker-dealers to sell our securities and affect the ability of purchasers to sell any of our securities in the secondary market, thus possibly making it more difficult for us to raise additional capital in the future. Additionally, if our Common Stock were to become subject to the Penny Stock Rule, we would become subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

We have never paid cash dividends on our stock and do not intend to pay dividends for the foreseeable future.

We have paid no cash dividends on any class of our stock to date and we do not anticipate paying cash dividends in the near term. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our Common Stock.

Accordingly, investors must be prepared to rely on sales of their Common Stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our Common Stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board deems relevant.

Fulfilling our obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, is expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations and our stock price.

As a public company, the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC require us to implement various corporate governance practices and adhere to a variety of reporting requirements and complex accounting rules. Compliance with these public company obligations requires us to devote significant time and resources and places significant additional demands on our finance and accounting staff and on our financial accounting and information systems. We plan to hire additional accounting and financial staff with appropriate public company reporting experience and technical accounting knowledge. Other expenses associated with being a public company include increased auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses.

We are required under the Sarbanes-Oxley Act of 2002 to document and test the effectiveness of our internal control over financial reporting. In addition, we are required under the Exchange Act to maintain disclosure controls and procedures and internal control over financial reporting. Any failure to maintain effective controls or implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal control over financial reporting, investors could lose confidence in the reliability of our financial statements. This could result in a decrease in the value of our Common Stock. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC or other regulatory authorities.

Our board of directors has broad discretion to issue additional securities and any such issuance may cause substantial dilution to our stockholders.

We are entitled under our articles of incorporation to issue up to 90,000,000 shares of Common Stock and 50,000,000 shares of "blank check" preferred stock, although these amounts may change in the future subject to stockholder approval. Shares of our blank check preferred stock provide to our board of directors broad authority to determine voting, dividend, conversion, and other rights. As of the date of this Offering Memorandum, we have issued and outstanding 9,540,891 shares of Common Stock, no shares of preferred stock, and we have 2,000,000 shares of Common Stock reserved for issuance under our 2017 Equity Incentive Plan, of which 356,401 shares remain available for issuance and 77,680 shares of Common Stock reserved for issuance upon the exercise of outstanding warrants. As of the date of this Offering Memorandum, we had no shares of preferred stock issued and outstanding. Accordingly, at the date of this Offering Memorandum, we could issue up to 78,385,367 additional shares of Common Stock (including shares reserved under our 2017 Equity Incentive Plan and 77,680 shares of Common Stock reserved for issuance upon the exercise of outstanding warrants) and 50,000,000 shares of "blank check" preferred stock. Any additional stock issuances could be made at a price that reflects a discount or premium to the then-current market price of our Common Stock. In addition, in order to raise capital, we may need to issue securities that are convertible into or exchangeable for a significant amount of our Common Stock. Our board may generally issue those common and preferred shares, or convertible securities to purchase those shares, without further approval by our stockholders. Any preferred shares we may issue could have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. We may also issue additional securities to our directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock incentive plans. The issuance of additional securities may cause substantial dilution to our stockholders.

Our articles of incorporation, bylaws and Nevada law have anti-takeover provisions that could discourage, delay or prevent a change in control, which may cause our stock price to decline.

Our articles of incorporation, bylaws and Nevada law contain provisions which could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders. We are currently authorized to issue up to 50,000,000 shares of “blank check” preferred stock. This preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by our board of directors without further action by stockholders. The terms of any series of preferred stock may include voting rights (including the right to vote as a series on particular matters), preferences as to dividend, liquidation, conversion and redemption rights and sinking fund provisions. No shares of our preferred stock are currently outstanding. The issuance of any preferred stock could materially adversely affect the rights of the holders of our Common Stock, and therefore, reduce the value of our Common Stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to, a third party and thereby preserve control by current management.

Provisions of our articles of incorporation, bylaws and Nevada law also could have the effect of discouraging potential acquisition proposals or making a tender offer or delaying or preventing a change in control, including changes a stockholder might consider favorable. Such provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. In particular, our articles of incorporation, our bylaws and Nevada law, as applicable, among other things, provide our board of directors with the ability to alter our bylaws without stockholder approval, and provide that vacancies on our board of directors may be filled by a majority of directors in office, although less than a quorum.

Risks Relating to the Offering

The Bonds are complex financial instruments that are not necessarily suitable for all investors.

The Bonds are complex financial securities with a debt component and an option component linked to our shares of Common Stock. Investors must have sufficient knowledge of us and experience in financial markets to evaluate the benefits and risks of investing in our Bonds, as well as knowledge and access to analytical tools in order to assess these benefits and risks in the content of their financial situation. Investors must be able to understand in which cases and under what conditions the conversion and/or exchange of the Bonds into new shares of Common Stock of us could benefit them. The Bonds are not suitable for investors who are not familiar with concepts such as acceleration or amortization on maturity, events of default or other financial terms relating to these types of financial instruments. Investors must also have sufficient financial resources to bear the risks of an investment in the Bonds.

The Company may not have the ability to redeem the Bonds in cash if investors exercise the early redemption right upon the occurrence of a change of control, delisting or upon their option in certain circumstances.

Bondholders may require the Company to redeem for cash all or some of their Bonds upon a transaction or event constituting a change of control, delisting or upon their option in certain circumstances as described under “Description of the Bonds — Redemption, Repurchase and Cancellation.” The Company may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, the Company’s ability to redeem the Bonds in cash may be limited by law, by indebtedness and agreements that the Company may enter into in the future which may replace, supplement or amend the Company’s existing or future indebtedness. If the exercise of the redemption right upon the occurrence of a change of control or delisting occurs at a time when the Company is prohibited from redeeming the Bonds, the Company could seek the consent of lenders to redeem the Bonds or could attempt to refinance the borrowings that contain this prohibition. If the Company is not able to obtain consent or refinance these borrowings, the Company could remain prohibited from redeeming the Bonds. The Company’s failure to redeem Bonds would constitute an event of default, which might constitute a default under the terms of the Company’s other indebtedness at that time.

Transfers of the Bonds (and shares issued upon conversion thereof) are restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Bonds have not been registered, and we are not obligated to register the Bonds under the Securities Act or the securities laws of any other jurisdiction and, unless so registered, the Bonds may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the

Securities Act and any other applicable laws. See “*Transfer Restrictions*” and “*Plan of Distribution*.” We have not agreed to or otherwise undertaken to register the Bonds (including by way of an exchange offer), and our Company has no intention of doing so.

There has been no prior market for the Bonds, an active trading market for the Bonds may not develop or be sustained, and the trading price of the Bonds could be materially and adversely affected accordingly.

Prior to this offering, there has been no market for the Bonds, and an active trading market for the Bonds might not develop.

The Bonds are a new issue of securities for which there is currently no trading market. We have been advised that the Initial Purchaser may make a market for the Bonds, but are not obligated to do so and may discontinue such market making activity at any time without notice. We cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. The price at which the Bonds trade depends on many factors, including, but not limited to:

- the market price of the shares, prevailing interest rates, and the markets for similar securities;
- general economic conditions; and
- our financial condition, historical financial performance, and future prospects.

If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could be materially and adversely affected. Lack of a liquid, active trading market for the Bonds may adversely affect the price of the Bonds or may otherwise impede a holder’s ability to dispose of the Bonds.

The shares of Common Stock or the Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required. The shares of Common Stock may be publicly traded on the OTCQX Best Market or Euronext Paris.

The value of your investment may be reduced by possible future sales of shares of Common Stock or any securities that are substantially similar to the Common Stock by our stockholders or us.

While we are not aware of any plans by any major stockholders to dispose of significant numbers of shares of Common Stock, we cannot assure you that one or more existing stockholders or owners of securities convertible or exchangeable into or exercisable for our shares of Common Stock will not dispose of significant numbers of shares of Common Stock or such securities. We cannot predict the effect, if any, that future sales of shares of Common Stock, or the availability of shares of Common Stock for future sale, will have on the market price of the Bonds or shares of Common Stock prevailing from time to time. Sales of substantial amounts of shares of Common Stock or securities convertible or exchangeable into the shares of Common Stock in the public market, or the perception that such sales may occur, could depress the prevailing market prices of our Bonds or shares of Common Stock.

The Bonds may be adversely affected by fluctuations in the trading prices of the Company’s Common Stock.

The market price of the Bonds may at any time be affected by fluctuations in the trading prices of the Company’s Common Stock. There can be no certainty as to the effect, if any, that future issues or sales of the shares of stock, or the availability of such shares of stock for future issue or sale, will have on the market price of the Common Stock prevailing from time to time and therefore on the price of the Bonds. Sales of a substantial number of the Common Stock in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Common Stock and the Bonds. The Company’s results of operations, financial condition, future prospects and business strategy could affect the value of the Common Stock. The trading price of the Common Stock will be influenced by the Company’s operational results (which in turn are subject to the various risks the businesses and operations are subject to) and by other factors such as changes in the regulatory environment that may affect the markets in which we operate and the capital markets in general. Corporate events such as share sales, reorganizations, takeovers or share buy-backs may also adversely affect the value of the Common Stock. Any decline in the price of the Common Stock would adversely affect the market price of the Bonds.

Holders have limited anti-dilution protection.

The Conversion Price of the Bonds will be adjusted in the event that there is a free distribution, bonus issue, division, consolidation and reclassification, declaration of dividends, rights issue, warrants issue, capital distribution or other adjustment, but only in the circumstances and only to the extent provided in “*Description of the Bonds — Conversion.*” There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events with respect to which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

Future offers or sales of the Company’s Stock may hurt the value of the Bonds.

The market price of the Bonds and the Company’s Common Stock could decline as a result of future sales of a large number of the Company’s Common Stock or the perception that such issues, offers or sales could occur. Furthermore, if any existing stockholders offer or sell a large number of the Company’s Common Stock, the market price for the Bonds or the Company’s Common Stock could be depressed.

Holders of the Bonds will have no rights as stockholders until they acquire shares of Common Stock upon conversion of the Bonds.

Unless and until the holders of the Bonds acquire shares of Common Stock upon conversion of the Bonds, the holders of the Bonds will have no rights as stockholders, including any voting rights or rights to receive any dividends or other distributions with respect to the shares of Common Stock. Subject to the relevant Indenture and applicable State of Nevada, U.S. and French laws, holders of the Bonds who acquire the shares of Common Stock upon the exercise of their Conversion Rights will be entitled to exercise the rights of stockholders only as to actions for which the applicable record date occurs after the Conversion Date.

Our obligations under the Bonds will be junior in right of payment to the secured indebtedness of our Company and our subsidiaries.

The Bonds will be our direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* without any preference or priority among themselves and with all of our other senior, direct, unconditional unsubordinated and unsecured obligations. However, the Bonds are junior in their right of payment to all of our future secured indebtedness. In addition, our ability to make payments with respect to the Bonds will depend largely upon the receipt of dividends, distributions, and interest from advances from our subsidiaries. The ability of our subsidiaries to pay dividends and other amounts to us may be subject to their profitability and applicable laws. In the event of the winding up of our Company, although the Bonds would become immediately due and payable at the Early Redemption Amount, the assets of our Company would be available to pay such amounts only after all the secured indebtedness of our Company and our subsidiaries has been paid in full. Therefore, we may not be able to repay the Bonds in the event of the winding up of our Company, and you may suffer losses on your investment in the Bonds.

The Trustee may request that Bondholders provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (as specified in the Description of the Bonds and the relevant Indenture and including, without limitation, the giving of notice to the Issuer pursuant to Section 15 of the Description of the Bonds and the taking of enforcement steps pursuant to Section 12 of the Description of the Bonds), the Trustee may (at its sole discretion) request that Bondholders provide an indemnity and/or security and/or prefunding to its satisfaction before it takes action on behalf of the Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiation and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the relevant Indenture (as defined in the Description of the Bonds) and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such action directly.

The Bonds will initially be represented by the Global Certificates and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System.

The Bonds are represented by the Global Certificates. Such Global Certificates have been deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificates, investors will not be entitled to receive definitive Bonds. The relevant Clearing System will maintain records of the beneficial interests in the Global Certificates. While the Bonds are represented by the Global Bonds or the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing System.

While the Bonds are represented by the Global Certificates, the Company will discharge its payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. The Company has no responsibility or liability in connection with the records relating to, or payments made with respect to, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote with respect to the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

The Company may call the Bonds prior to maturity if it has or will become obligated to pay Additional Amounts as a result of certain changes in applicable tax law.

The Company may call the Bonds prior to maturity if it has or will become obligated to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of French, U.S., State of Nevada, Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations. In such an event, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed but, in that case, no Additional Amounts will be payable on the electing Bond holder's Bonds after the relevant tax redemption date, and payment of all amounts shall be made subject to the deduction of withholding of any taxation required to be withheld or deducted. See "Description of the Bonds - Redemption, Purchase and Cancellation - Redemption for Taxation Reasons."

Modification and waivers may be made with respect to the Description of the Bonds and the Indentures by the Trustee or by fewer than all of the holders of the Bonds.

The Description of the Bonds contains provisions for calling a meeting of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Description of the Bonds also provides that the Trustee may agree, without the consent of Bondholders, to (i) any modification of any of the provisions of the relevant Indenture which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification (except as mentioned in the relevant Indenture), and any waiver or authorization of any breach or proposed breach, of any of the provisions of the relevant Indenture which is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification shall be binding on the Bondholders.

The trading price for the Bonds is affected by the price of our traded shares.

The market price of the Bonds at any time will be affected by fluctuations in the price of our Shares as listed on the OTCQX Best Market and/or Euronext Paris. It is impossible to predict changes in the trading price of our Shares, which will generally be influenced by, among other things, our operating results, political, economic, financial and other factors affecting capital and financial markets globally and within the U.S. or France, block sales or sell-downs by our major stockholders. Any decline in the price of our Shares can be expected to have an adverse effect on the secondary trading price for the Bonds.

The insolvency laws of the Nevada and other jurisdictions in which the subsidiaries of the Company currently operate may differ from those of any other jurisdiction with which holders of the Bonds are familiar.

Because the Company is incorporated under the laws of the State of Nevada, an insolvency proceeding relating to the Company, even if brought in other jurisdictions, would likely involve insolvency laws in the State of Nevada, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions. The Company conducts its business operations through subsidiaries incorporated across different countries. The laws and regulations relating to bankruptcy and insolvency in these countries and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Bonds are familiar. Investors should analyze the risks and uncertainties carefully before investing in the Bonds.

Risks relating to the Bank Guarantee

The BG Bank's ability to perform its obligations under the Bank Guarantee is subject to its financial condition.

The Bank Guarantee will be issued by Bank of Panhsin Co., Ltd. ("Bank of Panhsin" or the "BG Bank"). The ability of the BG Bank to make payments under the Bank Guarantee will depend on its financial condition, which could be materially and adversely affected by a number of factors, including, but not limited to, the following:

Overdue loans and advances: Bank of Panhsin's financial condition will be affected by its overdue loans. If Bank of Panhsin is unable to control effectively and reduce the level of overdue loans and advances in its current loan portfolio and in new loans Bank of Panhsin extends in the future, or Bank of Panhsin's allowance for impairment losses on loans and advances is insufficient to cover actual loan losses, Bank of Panhsin's financial condition could be materially and adversely affected.

Collateral and guarantees: A certain portion of Bank of Panhsin's loans is secured by collateral and backed by guarantees. If Bank of Panhsin is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of such loans due to various factors, Bank of Panhsin's financial condition could be materially and adversely affected.

Loans to real estate sector: Bank of Panhsin's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. The real estate market may be affected by many factors, including, without limitation, cyclical economic volatility and economic downturns. In addition, Taiwan's central bank is closely monitoring the real estate market and may take proactive actions to prevent the real estate market from over-heating. Such factors may adversely affect the growth and quality of its loans to the real estate industry and, consequently, Bank of Panhsin's financial condition and results of operations.

USE OF PROCEEDS

We intend to primarily use the net proceeds (after deduction of fees and expenses) from this Offering as follows:

- 40% ~ 60% for potential strategic investments and acquisitions although we have not identified any specific investments or acquisition opportunities at this time;
- 5% ~ 15% for building of our first satellite ground station and data center on the parcel of land we have acquired in Taiwan;
- 20% ~ 30% for product development; and
- the rest for working capital and other general corporate purposes.

The foregoing represents our current intentions to use and allocate the net proceeds of this Offering based upon our present plans and business conditions. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this Offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this Offering differently than as described in this Offering Memorandum.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as of September 30, 2020, on an actual basis and on an adjusted basis.

	As of September 30, 2020	
	Actual (US\$) (Unaudited)	Pro forma as adjusted for the issuance of Bonds in this Offering (US\$)
Assets		
Cash and restricted cash.....	115,534	9,618,534
Short-term liabilities		
.....	7,995,027	7,995,027
Long-term liabilities		
The Credit Enhanced Bonds.....	-	10,000,000
The Coupon Bonds	-	200,000
Total long-term liabilities.....	1,050,016	11,250,016
Equity		
Capital stock (Common Stock and Preferred Stock)	9,392	9,392
Authorized share capital of 90,000,000 shares of Common Stock		
Issued and fully paid share capital of 9,391,729 shares of Common Stock (excluding 149,162 unvested restricted shares)		
Authorized share capital of 50,000,000 shares of Preferred Stock ¹		
Additional paid in capital.....	71,019,515	71,019,515
Accumulated deficits.....	(30,129,350)	(30,826,350)
Accumulated other comprehensive loss	(1,077,736)	(1,077,736)
Total equity attributable to owners of the Aerkomm	39,821,821	39,124,821
Non-Controlling Interests	-	-
Total equity	39,821,821	39,124,821
Total Liabilities and Stockholders' Equity²	48,866,864	58,369,864

¹ No shares of Preferred Stock are issued and outstanding.

² The capitalization includes long-term liabilities and total equity.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present our selected financial data and other data solely for the convenience of the reader and should be read in conjunction with and are qualified in their entirety by reference to, our consolidated financial statements, which are included elsewhere in this Offering Memorandum. Our financial statements, prepared in accordance with U.S. GAAP, are not intended to present the financial position, result of operations, and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions, including the U.S.

The following tables present a summary of the Company's consolidated financial information and selected operating data as of the dates or for each of the periods indicated. The financial information presented in these tables for the financial years ended as of December 31, 2017, 2018 and 2019, have been derived from the historical audited consolidated financial statements of the Company included elsewhere in this Offering Memorandum, which were prepared in accordance with U.S. GAAP and audited by Chen & Fan Accountancy Corporation, independent auditors.

The summary consolidated financial information presented for the nine months ended September 30, 2019 and 2020, has been derived from the unaudited interim consolidated financial statements of the Company presented elsewhere in this Offering Memorandum, which were prepared in accordance with U.S. GAAP and reviewed by Chen & Fan Accountancy Corporation, independent auditors. The unaudited interim consolidated financial statements include material adjustments, consisting of normal and recurring adjustments, which the Company considers necessary for a fair statement of its consolidated financial position and operating results for the periods presented.

Our historical results do not necessarily indicate results expected for any future periods. In addition, our unaudited results for the nine months ended September 30, 2020, are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. See "Risk Factors — Risks Relating to Our Business".

	For the year ended December 31,		
	2017	2018	2019
	(US\$)	(US\$)	(US\$)
	(Audited)	(Audited)	(Audited)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS:			
Revenue			
Net Sales	-	1,730,000	1,599,864
Services income	-	15,000	-
Total revenue	-	1,745,000	1,599,864
Cost and expenses			
Cost of sales		1,661,849	1,587,222
Operating expenses	7,147,597	8,096,033	8,569,231
Total cost and expenses	7,147,597	9,757,882	10,156,453
Loss from Operations	(7,147,597)	(8,012,882)	(8,556,589)
Foreign currency exchange gain (loss)	-	(128,362)	586,040
Other loss, net	-	(2,973)	(5,759)
Net non-operating income (loss)	23,652	(131,335)	580,281
Loss before Income Taxes	(7,123,945)	(8,144,217)	(7,976,308)
Income Tax Expense	8,519	4,123	3,251
Net Loss	(7,132,464)	(8,148,340)	(7,979,559)
Foreign currency translation adjustments	(3,454)	123,428	(602,603)
Total Comprehensive Loss	(7,135,918)	(8,024,912)	(8,582,162)
Net Loss Per Common Share			
Basic	(0.8736)	(0.9205)	(0.8597)
Diluted	(0.8736)	(0.9205)	(0.8597)
Weighted Average Shares Outstanding - Basic	8,164,313	8,852,094	9,380,450
Weighted Average Shares Outstanding - Diluted	8,164,313	8,852,094	9,380,450

	For the nine months ended September 30,	
	2019	2020
	(US\$) (Unaudited)	(US\$) (Unaudited)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS:		
Revenue		
Net Sales	1,599,864	-
Services income	-	-
Total revenue	1,599,864	-
Cost and expenses		
Cost of sales	1,587,222	-
Operating expenses	6,356,161	6,199,323
Total cost and expenses	7,943,383	6,199,323
Operating loss	(6,343,519)	(6,199,323)
Foreign currency exchange gain (loss), net	(528,748)	551,591
Interest expense, net	(4,741)	(31,690)
Unrealized loss on short-term investment	-	(68,911)
Other income (loss), net	30	(1,106,055)
Net non-operating (loss)	(533,459)	(655,065)
Loss before Income Taxes	(6,876,978)	(6,854,388)
Income Tax Expense	3,235	3,275
Net Loss	(6,880,213)	(6,857,663)
Other Comprehensive Income (Loss) Change in foreign currency translation adjustments	524,531	(595,097)
Total Comprehensive Loss	(6,355,682)	(7,452,760)
Net Loss Per Common Share		
Basic	(0.7377)	(0.7188)
Diluted	(0.7377)	(0.7188)
Weighted Average Shares Outstanding - Basic	9,326,382	9,540,891
Weighted Average Shares Outstanding - Diluted	9,326,382	9,540,891

	As of December 31,		
	2017	2018	2019
	(US\$) (Audited)	(US\$) (Audited)	(US\$) (Audited)
CONSOLIDATED BALANCE SHEETS:			
Total current assets	1,239,544	4,376,090	7,218,009
Net property and equipment	3,554,727	38,040,852	37,768,986
Total other assets	5,471,705	4,965,743	5,004,596
Total assets	\$10,265,976	\$47,382,685	\$49,991,591
Total current liabilities	3,811,857	5,199,951	3,330,994
Total long-term liabilities	56	763,000	845,002
Total liabilities	3,811,913	5,962,951	4,175,996
Total stockholders' equity	6,454,063	41,419,734	45,815,595
Total liabilities and stockholders' equity	\$10,265,976	\$47,382,685	\$49,991,591

	As of September 30,	
	2019	2020
	(US\$) (Unaudited)	(US\$) (Unaudited)
CONSOLIDATED BALANCE SHEETS:		
Total current assets	8,471,942	6,904,847
Net property and equipment	37,845,781	37,388,189
Total other assets	4,959,577	4,573,828
Total assets	51,277,300	48,866,864
Total current liabilities	3,865,143	7,995,027
Total long-term liabilities	58,515	1,050,016
Total liabilities	3,923,658	9,045,043

	As of September 30,	
	2019	2020
	(US\$)	(US\$)
	(Unaudited)	(Unaudited)
Total stockholders' equity	47,353,642	39,821,821
Total liabilities and stockholders' equity	51,277,300	48,866,864

	For the year ended December 31,		
	2017	2018	2019
	(US\$)	(US\$)	(US\$)
	(Audited)	(Audited)	(Audited)
CONSOLIDATED STATEMENTS OF CASH FLOWS:			
Net cash used for operating activities	(6,001,485)	(7,031,994)	(8,729,319)
Net cash used for investing activities.....	(273,015)	(34,583,195)	(635,293)
Net cash provided by financing activities	5,984,941	41,558,566	10,855,735
Net Increase (Decrease) in Cash	(289,559)	(56,623)	1,491,123
Cash from acquired subsidiaries	2,354	-	-
Cash and Restricted Cash, Beginning of Year	312,173	21,504	88,309
FOREIGN CURRENCY TRANSLATION EFFECT ON CASH...	(3,464)	123,428	(602,603)
Cash and Restricted Cash, End of Year	21,504	88,309	976,829

	For the nine months ended September 30,	
	2019	2020
	(US\$)	(US\$)
	(Unaudited)	(Unaudited)
CONSOLIDATED STATEMENTS OF CASH FLOWS:		
Net cash used for operating activities	(8,030,353)	(1,516,414)
Net cash used for investing activities.....	(630,917)	(213,074)
Net cash provided by financing activities	10,865,453	1,463,290
NET INCREASE (DECREASE) IN CASH	2,195,183	(266,198)
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD...	88,309	976,829
FOREIGN CURRENCY TRANSLATION EFFECT ON CASH...	524,531	(595,097)
CASH AND RESTRICTED CASH, END OF PERIOD	2,808,023	115,534

BUSINESS

Overview

The following discussion takes into account the negative impact on our industry and markets of the onset of the COVID-19 coronavirus which began in Wuhan, China in December 2019, to the extent that it is currently possible to quantify such impact. Although it is too early to determine the medium and long term impact and effect of the coronavirus and to quantitatively measure that impact and effect, there can be no certainty with respect to any of the growth projections referenced below, and we expect that, at least in the short term, the coronavirus could have a negative impact on our business prospects and the market introduction of our IFEC product offerings. See our discussion of the coronavirus in the Risk Factors section of this offering memorandum, above.

Prior to the onset of the COVID-19 pandemic, the global in-flight entertainment and connectivity, or IFEC, market was expected to experience high growth due to factors such as aircraft expansion, increasing passenger rates, rising penetration rates, and technological advances. According to a 2019 market research report by Grand View Research, Inc.¹, the IFEC market was projected to reach USD 10.5 billion by 2025, at a compound annual growth rate, or CAGR, of 10.3% from 2019 to 2025. The same market research report also predicted that the IFEC market in the Asia Pacific region was projected to grow at the highest CAGR during the forecast period, owing to increasing aircraft deliveries and rising passenger traffic in this region. This report also concluded that China was expected to be the major market in the region, owing to the reforms in their regulations and policies, innovative business models, and the development of aircraft with new technologies. The conclusions of this report and similar historical market analyses and projections are now called into question as a result of the COVID-19 pandemic and the global actions being taken to slow and stop the spread of the pandemic.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic is having a particularly adverse impact on the airline industry. The outbreak in China and throughout the world since December 2019 has led to a precipitous decrease in the number of daily departures and arrivals for domestic and international flights.

Recent Market Information

In the IATA (International Air Transportation Association) Airlines Financial Monitor dated April - May 2020, published on May 20, 2020, the following key points were highlighted:

- The first quarter 2020 financial results reflected the initial industry-wide deterioration in profitability following the impact of the COVID-19 outbreak on air travel. The adverse outcome was widespread across all regions even though some markets were locked down relatively later in the quarter. All regions posted negative net income figures in the first quarter of 2020.
- Global airline share prices moved lower in the first quarter of 2020, before rallying in April, driven by government support to the industry and the restart of airline operations.
- Oil and jet fuel prices also recovered somewhat in May being that the demand for fuel is expected to increase with the ease of lockdown measures. Sharp production cuts from both OPEC and Russia also provided price support.
- In April 2020, air passenger demand posted its largest decline on record due to the widespread lockdowns and border closures. Air cargo demand was relatively more resilient but still saw volumes fall by 27.7% year-on-year on the disruption in global manufacturing activity. While the passenger load factor declined by 41 ppts versus last year, the cargo load factor rose by 11.2 percentage points as a result of the decline in available capacity with the grounding of the passenger fleet.
- In May 2020, airlines started to return aircraft to service with the relaxation of lockdown measures. An additional 2,444 aircraft re-joined the in-service fleets in the same month. As a result, total seat

¹ Grand View Research, In-flight Entertainment & Connectivity Market Analysis Report by Offering Type (IFE, IFC), By Component (Hardware, Connectivity, Content), By Aircraft Type, By Region, And Segment Forecast, 2019 - 2025.

capacity improved by 25% compared to the previous month. However, total seat capacity was still 49% below the level of a year ago.

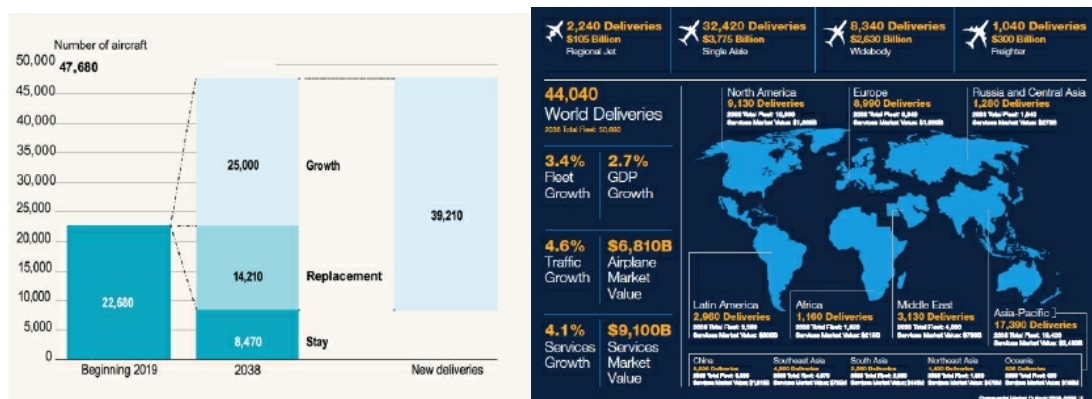
- New global aircraft deliveries were limited (16 aircraft) in May as airlines have been postponing or cancelling future deliveries in response to the COVID-19 crisis. As travel demand is expected to recover only gradually, airlines will likely remain cautious regarding capacity increases.

Additionally, on June 5, 2020, the IATA issued its Economics' Chart of the Week for flights on domestic markets indicating improving demand in May for all markets including the Asia Pacific region. Although this May improvement in demand is a good sign, the Economics' Chart of the Week for June 19, 2020 indicated that airlines have little visibility for demand for the northern winter season which begins in October.

In general, because the future of the COVID-19 pandemic is so unpredictable, the future of airline and air traffic recovery is extremely unpredictable as well.

Aviation Industry

Immediately prior to the onset of the COVID-19 pandemic, there were, according to Airbus and Boeing, more than 23,000 commercial aircraft flying globally, a number that was expected to more than double in the next 20 years. Both Airbus and Boeing had estimated that the global fleet of commercial aircraft would increase from 23,000 planes in 2019 to more than 50,000 in 2038, according to their respective 2019 reports, "Global Market Forecast report 2019 – 2038" and "Commercial Market Outlook 2019 – 2038." The Global Market Forecast report 2019 – 2038 predicted that the increase would include 30% for aircraft replacement and 70% for growth, with Asia-Pacific accounting for 42% of deliveries.



Prior to COVID-19, passenger numbers were also experiencing strong growth. The International Air Transport Association (IATA) had predicted that passenger numbers could double to 8.2 billion by 2037, according to the IATA's update "20-Year Air Passenger Forecast." During the next two decades, this forecast anticipated a 3.5% compound annual growth rate (CAGR), leading to a doubling in passenger numbers from pre-COVID-19 levels. The pre-COVID-19 strong growth, the IATA had concluded, had been driven by an eastward shift in the aviation industry's center of gravity, which, according to the IATA, would lead to more than half of the total number of new passengers in the next 20 years will come from the Asia Pacific region.

Although historical projections are no longer valid in the COVID-19 pandemic era, the IATA has reported, as indicated above, a beginning of an improvement in industry travel statistics. We cannot predict the future; however, the success of our business is predicated on the return to sustainability of the airlines industry and the acceptance of our IFEC product offerings which are discussed below.

In-Flight Entertainment and Connectivity

Recently, there have been more than 4 billion passengers flying globally, annually, spread across 23,000 airplanes. Only approximately 25% of these airplanes are equipped to offer some form of onboard connectivity with sometimes erratic quality, slow speeds and low broadband. According to the industry's largest poll of

passenger attitudes, Inmarsat's Inflight Connectivity Survey², in-flight Wi-Fi is a key driver in forming customer loyalty and satisfaction among today's airline passengers.

WiFi is everywhere, from cafes to bus stops, trains to airports, and it's a service that travelers and consumers value highly. Airline passengers' expectations for connectivity available while flying are very much set by their experience of connectivity on the ground where they expect constant access to WiFi. Unfortunately, in-flight WiFi can still feel like a luxury and passengers eagerly await free connectivity options onboard. As airlines are learning how integral in-flight WiFi affects the quality of a customer's flying experience, adding WiFi is just the start. As part of a general industry-wide push, airlines that offer onboard in-flight WiFi are now working towards making it better, faster, and cheaper.

A study issued in April 2018 by luxury travel consultants Lets Fly Cheaper reveals that as of the date of that study only a few airlines were offering free inflight WiFi. These airlines include Aer Lingus, Emirates, JetBlue, Norwegian, Air China, Philippine Airlines, Nok Air and Vueling. Some of these airline offerings, however, come with certain limitations such as being offered free for business passengers only or limited to the amount of data that can be downloaded. See the related map below provided by Lets Fly Cheaper.



Currently, less than 25% of the world's airline companies are providing some form of in-flight WiFi services through third-party providers. We believe that there is a huge market potential among the remaining unconnected airlines.

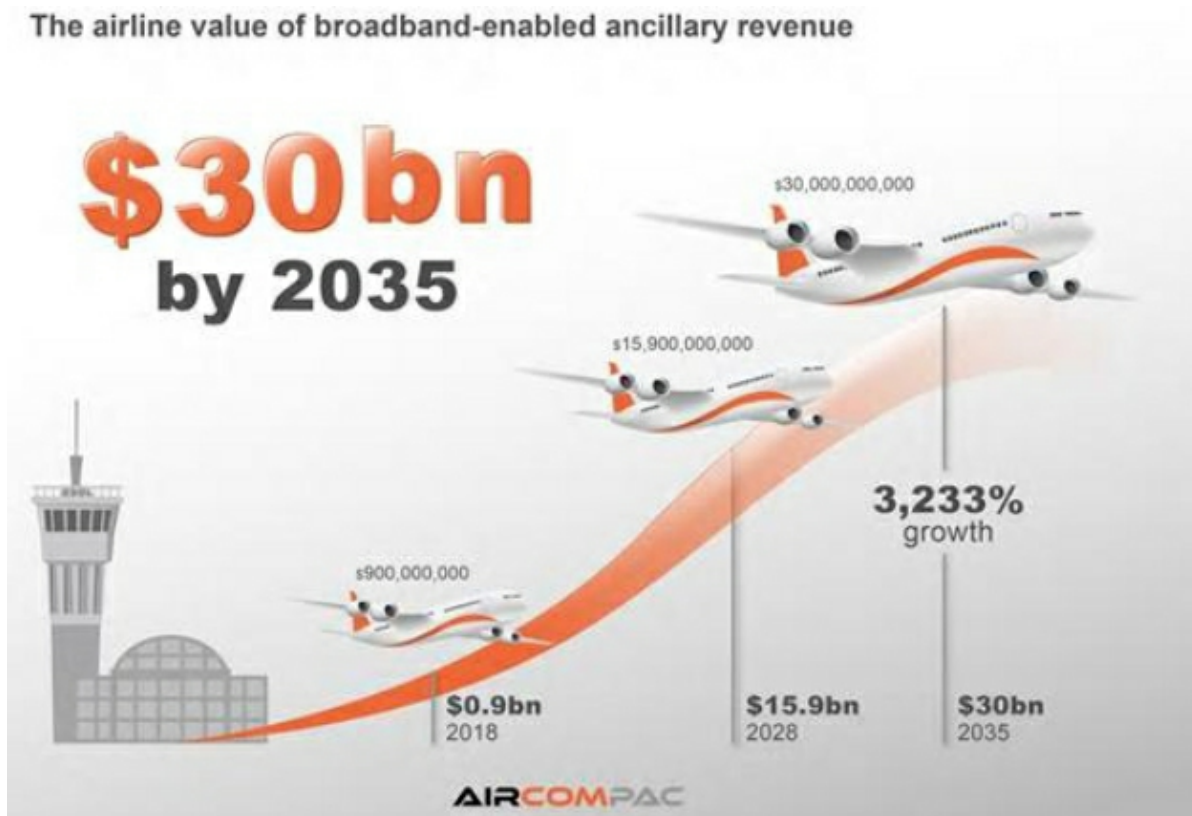
According to the Boeing Report titled "Commercial Market Outlook 2019 – 2038," it has been projected that by the end of 2030, two-thirds of the world's aircraft fleet will have some form of connectivity, whether through retrofit or line fit at production stage. Currently, the majority of connectivity upgrades are being done through aircraft modification as in-service aircraft are outfitted with new and high-speed systems. It is estimated that more than one thousand commercial aircraft are being upgraded annually. Eventually, more airplanes will be delivered from the production line with connectivity installed. However, whether aircraft connectivity is being carried out as a retrofit, or built into the initial aircraft production line, the evolution of IFEC technology shows that the demand for connectivity is increasing.

² The fourth annual global Inflight Connectivity Survey published on August 7, 2018 by Inmarsat (LSE: ISAT.L), the world's leading provider of global mobile satellite communications, in association with market research company Populus. The Inflight Connectivity Survey reflects the responses of more than 9,300 passengers from 32 countries across Europe, the Middle East, Asia Pacific, and North and Latin America, and is the largest global survey of passenger attitudes.

The Internet of Things (IOT) will also be an important enabler, to link in real time not only passenger but also core cabin components, including aircraft galleys, meal trolleys and other cabin elements. These IOT enhancements will allow simultaneous data exchange for the crew of an aircraft throughout the cabin.

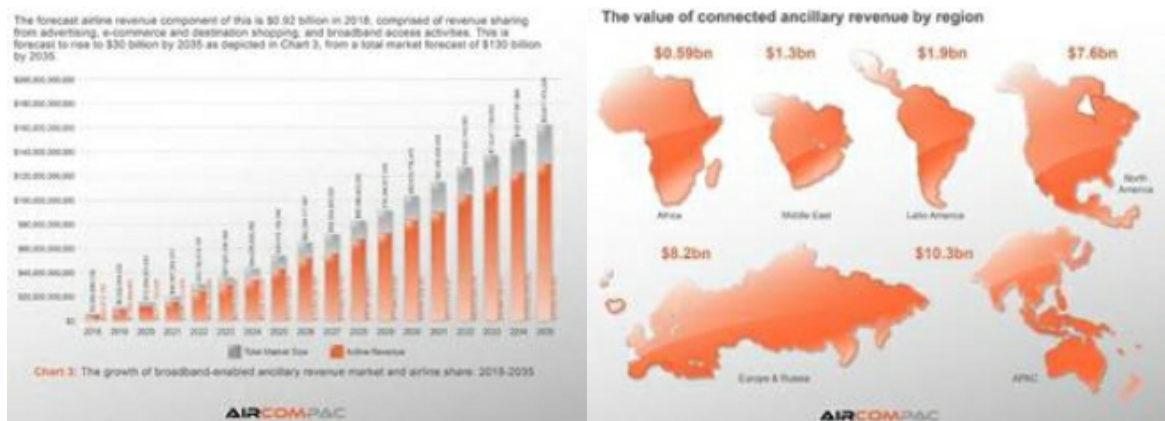
Furthermore, airlines will be able to use increased cabin connectivity to perform predictive maintenance analytics over their entire fleet, thus improving the overall cabin service reliability, quality and performance on board all of their aircraft.

On 26 September 2017, a new research study, *Sky High Economics: Quantifying the commercial opportunities of passenger connectivity for the global airline industry*, was published by the London School of Economics and Political Science (LSE) in association with global satellite communication specialists Inmarsat. This report predicted that in-flight broadband services have the potential to generate up to \$30 billion in additional revenue for airlines by 2035.



Source: London School of Economics and Political Science (LSE), *Sky High Economics: Quantifying the commercial opportunities of passenger connectivity for the global airline industry*.

The report based its findings on an independent forecasting model based on then current (pre-COVID-19) IATA passenger traffic data and forecasts of growth. The report predicted that, by 2035, there would be a near doubling of annual passenger numbers to 7.2 billion increasing to 7.8 billion in 2036 and 8.2 billion in 2037. The “*Sky High Economics*” report forecast that broadband-enabled ancillary revenue for airlines would reach an estimated \$30 billion by 2035 (a figure higher than IATA’s projections for the profitability of the global airline industry in 2017). According to the report, it was projected that this expected revenue growth would create a wider overall market of \$130 billion for content providers, retail goods suppliers, hotel and car suppliers and advertisers.



Source: London School of Economics (LSE), *Sky High Economics: Quantifying the commercial opportunities of passenger connectivity for the global airline industry. A strategic overview.*

The Sky High Economics report looks at six key regions: Asia Pacific, Europe, North America, Africa, Middle East and Latin America. Of these, the greatest potential for broadband-enabled ancillary services is expected to come from the Asia Pacific region - which has been expected to be the fastest growing aviation sector over the next 20 years. Airlines in Asia Pacific are predicted to benefit from \$10.3bn of ancillary revenues by 2035, followed by Europe (\$8.2bn), North America (\$7.6bn), Latin America (\$1.9bn), Middle East (\$1.3bn) and Africa (\$0.58bn).

Our History

Aircom was incorporated in the State of California on September 29, 2014. On December 28, 2016, Aircom purchased 140,000 shares, or approximately 86.3%, of the outstanding Common Stock of the public company then known as Maple Tree Kids, Inc. ("MTKI") for the purpose of engaging in a reverse acquisition with MTKI. MTKI was incorporated on August 14, 2013 in the State of Nevada. On January 10, 2017, in anticipation of the reverse acquisition and Aircom's new business, MTKI changed its name to Aerkomm Inc. On February 13, 2017, Aircom and its shareholders entered into a share exchange agreement with Aerkomm pursuant to which Aerkomm acquired 100% of the issued and outstanding capital stock of Aircom in exchange for approximately 99.7% of the issued and outstanding capital stock of Aerkomm (or 87.8% on a fully-diluted basis). As a result of the share exchange, Aircom became a wholly-owned subsidiary of Aerkomm, and the former shareholders of Aircom became the holders of approximately 99.7% of Aerkomm's issued and outstanding capital stock.

For accounting purposes, the share exchange transaction with Aircom was treated as a reverse acquisition, with Aircom as the acquirer and Aerkomm as the acquired party. To the extent this report contains business and financial information for partial periods prior to the consummation of the reverse acquisition, this information pertains to the business and financial information of Aircom and its consolidated subsidiaries. Aircom owns all of the equity interests of Aircom Seychelles, Aircom HK, Aircom Japan and Aircom Taiwan.

Aircom Seychelles was formed under the laws of Seychelles on December 15, 2009 as Gulach Ltd. and changed its name to Aircom Pacific Ltd. on August 19, 2014. Aircom Seychelles was acquired by Aircom on December 31, 2014 to facilitate Aircom's global corporate structure for both business operations and tax planning. Presently, Aircom Seychelles has no operations. Aircom is working with corporate and tax advisers in optimizing its global corporate structure and has not yet concluded a revised plan of organization.

On October 17, 2016, Aircom acquired Aircom HK for \$100,000. Aircom HK is a Hong Kong limited company formed on October 3, 2008 as Yanwei Information Technology Limited. Aircom HK changed its name to Dadny Inc Limited on September 6, 2011 and changed its name again to Aircom Pacific Inc. Limited on July 22, 2015. Aircom HK is in charge of all of Aircom's business and operations in Hong Kong and China. Presently, Aircom HK's primary function is business development, both with respect to airlines as well as content providers and advertising partners based in Hong Kong and China. It is also actively seeking strategic partnerships in those areas, through which Aircom may leverage its product offerings to provide enhanced services to prospective customers. Aircom also plans to provide local support to Hong Kong-based airlines via Aircom HK and Aircom HK owned teleports located in Hong Kong.

On December 15, 2016, Aircom acquired Aircom Japan for \$600,000. Aircom Japan was formed under the laws of Japan on August 29, 2011 as Dadny (Japan) Inc. and changed its name to Aircom Japan, Inc. on July 1, 2016. Aircom Japan is responsible for Aircom's business development efforts and general operations located within Japan.

Aircom Taiwan, which became a wholly owned subsidiary of Aircom in December 2017, was organized under the laws of Taiwan on June 29, 2016. During 2017, prior to Aircom Taiwan becoming a wholly owned subsidiary of Aircom, Aircom advanced a total of \$460,000 (the "Prepayment") to Aircom Taiwan for working capital as part of a planned \$1,500,000 aggregate equity investment (the "Equity Investment") in Aircom Taiwan. Aircom Taiwan at that time acted as Aircom's agent in Taiwan. Before Aircom Taiwan was allowed to issue equity to Aircom, because Aircom was a foreign investor, the Equity Investment had to be approved by the Investment Review Committee of the Ministry of Economic Affairs of Taiwan (the "Committee"). Aircom entered into an Equity Pre-Subscription Agreement with Aircom Taiwan dated as of August 13, 2017, to memorialize the terms of the Equity Investment. On December 19, 2017, the Committee approved Aircom's initial Equity Investment (valued as of that date at NT\$15,150,000, or approximately US\$500,000) and the purchase of the Aircom Taiwan's founding owner's total equity of NT\$100,000 (approximately US\$3,350). As a result of the approval of the Equity Investment, Aircom Taiwan became a 100% wholly owned subsidiary of Aircom.

On June 13, 2018, Aer Komm established Aer Komm Taiwan Inc. as a new wholly owned subsidiary under the laws of Taiwan. Aer Komm Taiwan Inc. is responsible for Aircom's business development efforts and general operations within Taiwan. We are currently planning to locate the site of our first ground station in Taiwan and we expect that if we raise sufficient funds to move forward with this project (although that cannot be guaranteed), Aer Komm Taiwan Inc. will play a significant role in building and operating that ground station.

On November 15, 2018, Aircom Taiwan acquired Aircom Beijing for CNY600,000 (approximately \$87,266). The purpose of this acquisition is for Aircom Beijing is to conduct Aircom's business and operations in China. On November 6, 2020, the ownership of Aircom Beijing was transferred from Aircom Taiwan to Aer Komm Taiwan. Presently, Aircom Beijing's primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in China as most business conducted in China requires a local registered company. Aircom Beijing is also actively seeking strategic partnerships through which Aircom may leverage its product offerings in order to provide enhanced services to prospective customers. Aircom also plans to provide local support to China-based airlines via Aircom Beijing and its future planned teleports to be located in China.

On October 31, 2019, Aircom Seychelles established a new wholly owned subsidiary, Aer Komm Pacific Limited, or Aer Komm Malta, a corporation formed under the laws of Malta. The purpose of Aer Komm Malta is to conduct Aircom's business and operations and to engage with suppliers and potential airline customers both in Europe and worldwide.

On March 22, 2020, the board of directors, or the Board, held a special meeting and took certain actions, effectively immediately, to position the Company for future growth. James Busuttill, a current director, was appointed Chairman of the Board. Louis Giordimaina, previously the Chief Operating Officer-Aviation of Aer Komm Malta was appointed the Company's Chief Executive Officer, Jeffrey Wun, the Company's Chief Executive Officer prior to March 22, 2020, resigned from that position and confirmed that his resignation from that position was not the result of any disagreement with the Company or the Board regarding the Company's financial or accounting policies or operations. Mr. Wun was appointed the Company's Chief Technology Officer and will remain as President of the Company and as a director, as well as the Chief Technology Officer of Aircom. Georges Caldironi, a former consultant to Aircom, was appointed as the Company's Chief Operating Officer. We believe that these managerial and Board changes will better position the Company to move forward into its next phase of operations.

Our Competition

Our key competitors include Gogo Inc., which has the largest installed base in the IFEC market mainly via air-to-ground technology, L-band connectivity services which provide a passenger-paid system of connectivity solutions and wireless in-flight entertainment services, and Panasonic Avionics Corp., which provides IFEC hardware and solutions via L-band and Ku-band technology. Other competitors include ViaSat, Global Eagle Entertainment, Inc., OnAir and Thales/LiveTV, all of which provide different technologies and strategies to provide in-flight connectivity and/or entertainment. Regardless of the delivery mechanisms used by us or our

competitors, the IFEC industry is expected to continue to face capacity constraints and unique technology challenges, which are expected to increase due to historically projected increased demand for in-flight Internet.

We believe that the following competitive strengths enable us to compete effectively in and capitalize on the growing IFEC market.

Innovative business model.

We believe that our business model sets us apart from most of our competitors. We combine cutting-edge connectivity technology with an innovative content-driven approach. Traditionally, providers of in-flight connectivity have focused primarily on the profit margin derived from the sale of hardware to commercial airlines and of bandwidth to passengers. Both airlines and passengers have to “pay to play,” which results in low participation and usage rates. We break away from this model and set a new trend with our creative business model, which, we expect, will set us apart from our competitors. Commercial airline companies will recover their costs through participating in our revenue sharing model while passengers will not be required to pay for connectivity. Taken together, this novel approach creates an incentive for airlines to work with us and should act to drive up passenger usage rates.

Ku-band and GEO/LEO Hybrid Satellite Technology

Most in-flight connectivity systems currently in the market rely on the Ku-band satellite signals for communication. Many players in the market are working to provide higher bandwidth and faster transmitting rates using the Ka-band. Currently, there are few Ka-enabled satellites and as a result, the coverage area in the Asia-Pacific region is limited. However, new GEO (Geostationary Earth Orbiting) and LEO (Low Earth Orbiting) Ka-band satellites are being regularly launched and this should provide worldwide Ka band coverage over the next few years.

Our Growth Strategies

We still strive to become a leading provider of IFEC solutions by pursuing the following strategies:

Launch and increase number of connected aircrafts.

As of the date of this offering memorandum, we have not provided our services on any corporate jets or commercial aircraft. However, we now have the following delivery contracts in place:

- On June 11 2019, we converted a General Terms Agreement with MJet GMBH, a corporate jet owner operating an Airbus ACJ A319 based in Austria, into a definitive agreement with MJet, and on June 12, 2019 MJet placed a first purchase order with Aircom. As discussed in more detail above, MJet will be our launch customer for the first planned installation of our AERKOMM K++ system expected to be ready for installation by first quarter of 2021. The installation will enable us to commence a rollout of sale and installation of our IFEC equipment and services to other aircraft.
- On January 30, 2020, Aircom signed an agreement with Hong Kong Airlines to provide this airline with both our Aerkomm AirCinema and AERKOMM K++ In-Flight Entertainment and Connectivity solutions. Under the terms of this agreement as discussed in greater detail above, Aircom will provide to Hong Kong Airlines its Ka-band AERKOMM K++ IFEC system for installation on its fleet of 12 Airbus A320 and 5 Airbus A330-300 aircraft as well as the AERKOMM AirCinema system being designed and produced specifically for the Hong Kong Airlines Airbus A320 aircraft. Hong Kong Airlines will become the first commercial airliner launch customer for Aircom.

To further our growth strategy, we plan to:

- leverage our creative business model and IFEC system to cost-effectively equip corporate jets and commercial aircraft;
- increase the number of to be equipped aircraft, targeting full-fleet availability of our IFEC equipment and services for our current and future airline partners;

- pursue global growth opportunities by leveraging our broad and innovative technology platform and technical expertise; and
- offer attractive business models to our corporate jet and airline partners, giving them the flexibility to determine the connectivity solutions that meet the unique demands of their businesses.

Increase passenger use of connectivity.

We believe that in-flight Internet connectivity has become a necessary utility rather than a novelty because most passengers are trying to remain “connected” while travelling. This trend is manifestly evident from the increasing data usage on mobile phones. However, the traditional business model is structured to charge as much as possible for high-end in-flight connectivity services offered to a very small number of people. Such business logic has resulted in the inflight connectivity option acquiring the reputation of being “pricey” and “only for business travelers whose employers will pay for it.” With a focus on catering to only a small number of people in a narrow market niche, our competitors are paying less attention to an innovative business model that can encourage a wider, broad-based usage of in-flight connectivity services. We believe that certain providers of existing in-flight connectivity services discourage in-flight usage because they believe such usage will increase their overhead expenses without generating additional profit. Due to this business model and the small amount of revenue generated from currently available connectivity services, airlines have considered in-flight connectivity as a “service” to passengers provided at their expense. Under this thinking, in-flight connectivity is a “cost center” from which airlines do not expect to generate profit. We believe that the value of a networking system grows exponentially with its usage and it is a waste of resources to build a networking system to be utilized only by a narrow niche market. Therefore, our business model encourages usage of our in-flight connectivity services on a much broader basis. In order to encourage such broader usage, we plan to offer our in-flight connectivity services to passengers in all travel classes for free, while we generate revenue from add-on services that will tie together passengers’ connectivity and usage. Thus, with our business model, we plan to create connectivity friendly aircraft cabins to provide free on-board internet connectivity for passengers, and to generate revenue through the sale of advertising commercials, banner advertising, in-app purchases, in-game purchases and other related in-flight transactions. We believe that our business model, under which neither airlines nor passengers will be required to pay for basic products or services, will create an incentive for the airlines to work with us and will drive passenger usage rates.

Expand satellite network coverage.

We will continue to expand our global satellite network coverage through the purchase of additional Ka-band capacity, and to seek to install our satellite solutions into multiple aircraft, while continuing to invest in research and development relating to satellite antennas and modem technologies. We are actively working with satellite providers such as Telesat to accommodate airlines’ global routes and growing fleets. We are monitoring the satellite industry for growth in coverage, with recent attention on China Satcom’s plan to launch high-capacity Ka-band and Ka HTS multispot-beam satellites over the Asia-Pacific region. We are also in discussions with Kacific Broadband Satellites Group (Kacific), which is a satellite operator providing high-speed broadband internet service for the South East Asia and Pacific Islands region. Its first Ka-Band HTS satellite, Kacific 1, was designed and built by Boeing and launched into geostationary orbit atop a SpaceX launch vehicle on 16th December 2019, in order to purchase Ka broadband capacity.

Expand satellite-based services to other markets.

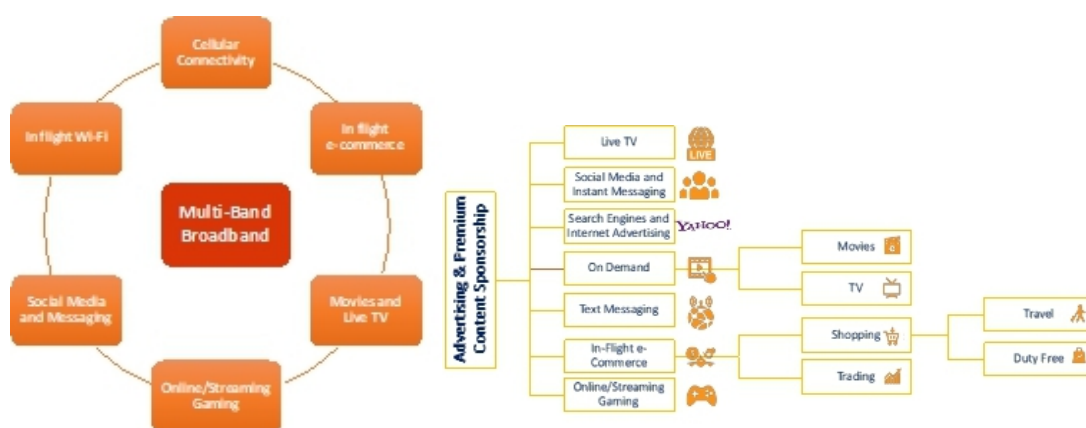
We anticipate expanding our satellite-based connectivity services to remote area hotels and resorts, maritime and cruise lines, high-speed railways, 4G/5G backhauling, and converged triple-play services in remote communities. We believe that there is substantial potential for expansion internationally into these new markets. Future business prospects will be evaluated on a case by case basis by weighing the projected revenue from advertising fees and e-commerce revenue shares against the projected operating and capital expenditures of satellite coverage, bandwidth and operations. Our existing business model could be applied to high-speed railways and cruise lines, both of which have a sufficient passenger base for the service to be viable. High-speed railways in China sit under existing, available Ka satellite coverage areas that are not served by 4G/LTE mobile networks, providing a unique opportunity for the delivery of connectivity services. High-speed railways in other regions of Asia present similar opportunities. Remote communities in Asia lack a telecom infrastructure, partly due to geographical limitations, for example, the islands of the Philippines and Indonesia are spread out over a vast geographic area. Satellite-based communications and mesh network technology make triple play services possible for the delivery of live TV broadcasting, videos, and telecom services to these regions.

Our IFEC Solutions

Aviation

With our advanced technologies and an innovative business model, we plan to provide airline passengers with a broadband in-flight experience that encompasses a wide range of service options. Such options include Wi-Fi, cellular, movies, gaming, live TV, and music. We plan to offer these core services through both built-in in-flight entertainment systems, such as a seatback display, as well as on passengers' personal devices including laptops, mobile telephones and tablets. We also plan to provide content management services and e-commerce solutions related to our IFEC solutions. This system will operate through Ka high throughput satellites, or HTSs.

The diagram below shows Aircom's planned services options and e-commerce options.



We also plan to provide related content management services and on-board e-commerce solutions for commercial airlines. We expect that a complete e-commerce and mobile entertainment platform will place control of content, service delivery and commercial strategy firmly in Aircom's hands *vis a vis* the airlines that may acquire our IFEC products and services. Our in-flight e-commerce solution will encompass on-line shopping, trading, travel options and duty-free sales, as well as other varied product offerings.

We have two business models in place for our approach to the IFEC aviation market, one relating to commercial airlines and one to corporate business jets:

1. Commercial Airlines

Traditionally, providers of in-flight connectivity have focused primarily on the profit margin derived from the sale of hardware to airlines and of bandwidth to passengers. Both airlines and passengers must "pay to play," which results in low participation and usage rates.

We break away from this model and expect to set a new trend with our innovative business approach which, we believe, will set us apart from our competitors by our partnering with airlines and other strategic partners, such as online advertisers and content providers, to offer commercial airlines our IFEC system hardware at no cost and to airline passengers free connectivity solutions. Airlines will potentially be able to generate new revenues through participating in our revenue sharing model while passengers will not be required to pay for connectivity. We believe that, taken together, this novel approach will create an incentive for airlines to work with us, and this collaboration should act to drive up passenger usage rates. We believe that this is an innovative approach that will differentiate us from most existing market players. We currently have an agreement in place with our first commercial airliner customer, Hong Kong Airlines (discussed below).

Our main source of revenue is expected to be derived from the content channeled through our IFEC network from selected partners including internet companies, content providers, advertisers, telecom service providers, e-commerce participants, and premium sponsors. In other words, we plan to use connectivity as a tool rather than as a commodity for sale, which we believe will allow us to achieve a greater return. By providing free connectivity which, we expect, will result in the generation of a

large volume of content traffic, we believe that we will create a multiplying effect that will result in a value that exceeds the “sum of its parts.”

Once our Aerkomm K++ system is approved by Airbus and receives the applicable airworthiness certifications, which process we expect to be completed in the beginning of second quarter of 2021, as further discussed below, we will begin providing our Aerkomm K++ systems for installation on commercial airline aircraft.

2. Corporate Jet Customers

According to the 2018 business aviation forecast published by Honeywell Aerospace³, during the next five years, 87% of new purchased business jets are expected to require satellite communications technology to facilitate internet connectivity. The same report states that business jet manufacturers are projected to deliver 7,700 new aircraft valued at \$251 billion during the next 10 years. We believe that these statistics, as well as our own research, indicate that there is a strong demand by corporate jet owners to have high-speed internet connectivity installed on their aircraft. We do not believe, however, that corporate jet customers would generate sufficient internet traffic to make a free-service business model profitable for us. Consequently, we have modified our business model to address the limitations of this additional market.

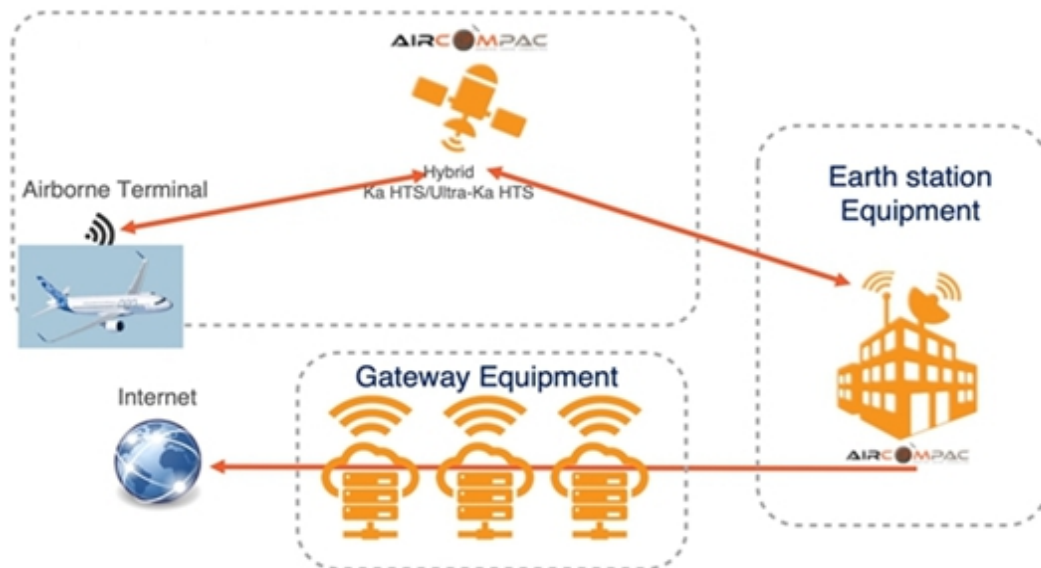
To capitalize on this market, we plan to sell our IFEC system hardware to corporate jet owners through the Airbus Corporate Jets (ACJ) and Boeing Business Jets (BBJ) programs. In addition to selling our IFEC systems equipment, we will also sell these corporate jet aircraft owners the bandwidth required for the operation of our services, priced on a subscription plan basis. This business model would generate revenue and income directly from the sale of our IFEC hardware and related bandwidth. We already have an agreement in place with our first corporate jet and launch customer, MJet GMBH (discussed below), and we are in advanced discussion with a number of additional potential customers both directly through our corporate network and through Airbus. We cannot give any assurances at this time, however, that we will be able to successfully complete any of these additional discussions.

Once our Aerkomm K++ system is approved by Airbus and receives the applicable airworthiness certifications, which process we expect to be completed during the fourth quarter of 2020, we will begin selling our Aerkomm K++ systems for installation on Airbus ACJ aircraft. Aircom Pacific, at Airbus’ invitation, attended the Airbus ACJ Customer Forum which was held in Singapore in February 2019. This Airbus ACJ Customer Forum provided Aircom a unique opportunity to network with ACJ customers, operators and key industry players within the Airbus Corporate Jet community. At the Airbus ACJ Customer Forum, Aircom was provided the opportunity to demonstrate the Aerkomm K++ system. A number of ACJ clients at the Airbus ACJ Customer Forum showed interest in our IFEC product offering and we are currently in active discussions with these parties. We expect to participate in future Airbus ACJ Customer Forums to be scheduled in the future in one or more European venues.

Our Connectivity Solutions - Ka/Ku Band Satellites

We expect to bring connectivity on-board to aircraft through communication satellites. As depicted in the diagram below, aircraft equipped with an on-board connectivity system can communicate with a satellite via an airborne antenna. The satellite then relays the information to a ground station, which is equipped with a high-power satellite dish and is connected to the Internet through our proprietary ground system.

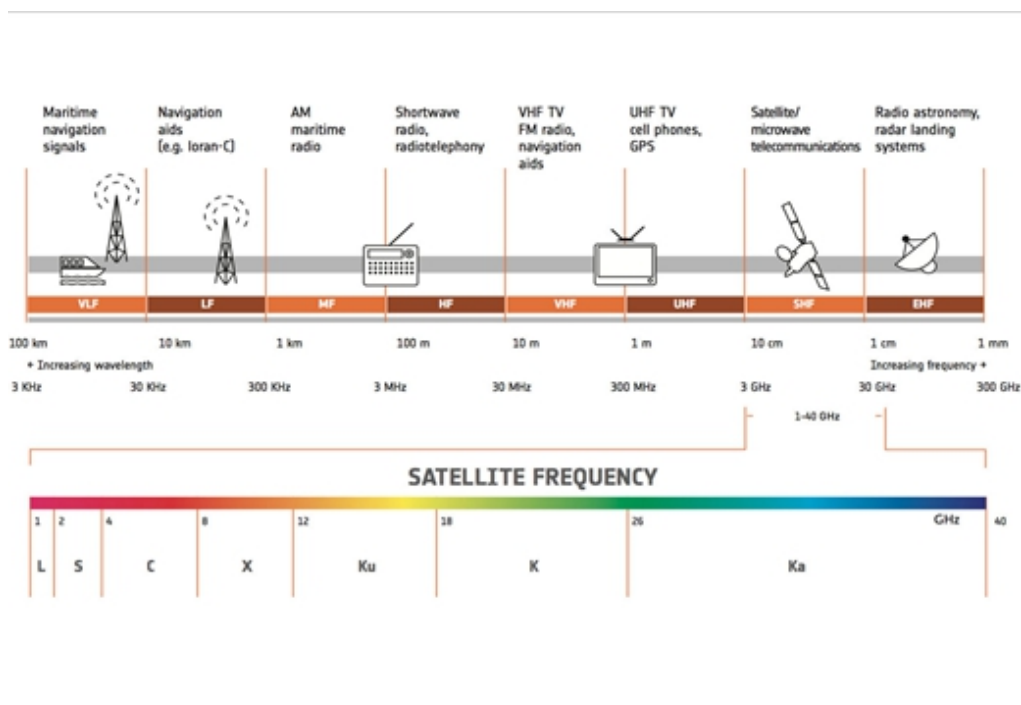
³ Avionics International, *Business & General Aviation, Connectivity “Buying Trends Favorable for Satellite Connectivity”*, October 14, 2018



Most in-flight connectivity systems currently in the market rely on the Ku-band satellite signals for communication. Many players in the market are working to provide higher bandwidth and faster transmitting rates using the Ka-band.

Below is a diagram, provided by the European Space Agency, showing the variety of satellite frequency bands. The higher the frequency bands, such as Ka, the wider the bandwidth. With the variety of satellite frequency bands that can be used, designations have been developed so that they can be referred to easily.

In satellite communications, the Ka-band allows higher bandwidth communication. Ka-band high-throughput-satellite systems reuse frequency bands in spot beams for much higher system capacity and better spectrum efficiency.



Currently, there are few Ka-enabled satellites, which limits the coverage area in certain areas of the Asia-Pacific region. However, new GEO (Geostationary Earth Orbiting) and LEO (Low Earth Orbiting) Ka-band satellites are being regularly launched and this increase in satellites is expected to provide worldwide Ka-band coverage within the next few years.

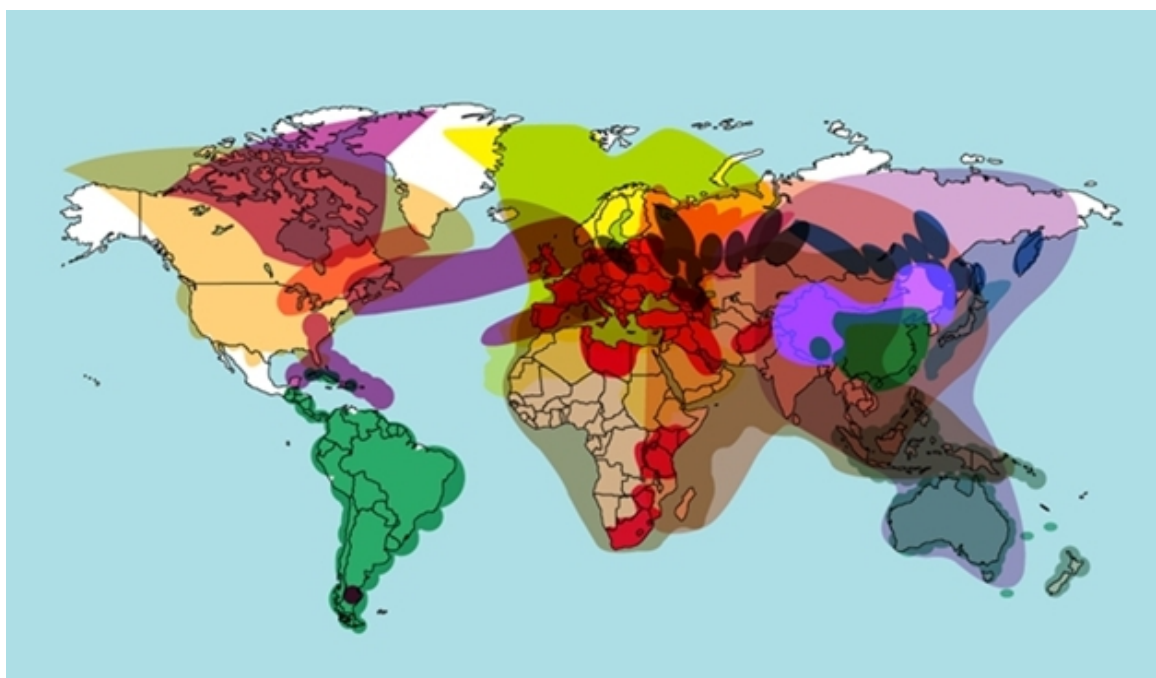
Our Aercomm K++ system architecture will bring our aviation partners and their passengers the benefits of both GEO and LEO Ka-band satellite technology. GEO satellites may scan a hemisphere of earth, or fixed regions of that hemisphere at regular intervals. Performance of GEO satellites diminishes greatly in the areas near the Earth's poles. LEO satellites orbit the earth from pole to pole and collect data from the areas beneath them. Only LEO satellites can collect high quality data over the poles. The Ka-band satellite increases data throughput. Aircom plans to have the necessary technology ready to take advantage of this new trend in Ka-band aviation connectivity. Future SpaceX, One Web and Telesat satellites are expected to be ready by end of 2022 and with full-service availability by 2023. As of March 1, 2020, Space X has launched 302 Starlink satellites targeting service in the Northern US and Canada, and expects to expand to near-global coverage by 2021. OneWeb Satellites, which is a joint venture between Airbus and OneWeb, is on track to provide global services by 2021. The first six satellites of the OneWeb constellation were launched in February 2019 and the first large batch of satellites was launched in February 2020. Telesat, which is a privately held Canadian company, launched a test satellite in 2018. By 2022, Telesat will have the Northern and Southern hemispheres covered and full global service by 2023.

The chart below depicts the coverage of both GEO and LEO Ka-band satellites.



The Ku-band offers reliable service outside of the Ka-band coverage over the ocean and in mountainous regions which is aimed to cover hotels and resorts remotely located as well as the maritime sector. The Ku-band also supports the OneWeb LEO satellite systems.

The map below shows areas of satellite coverage that could potentially be served by Aircom's IFEC product offering.



We are actively working with other satellite providers in order to accommodate global airline routes and growing fleets. We are monitoring the satellite industry for growth in coverage, including China Satcom's plan to launch high-capacity Ka-band and Ka HTS multispot-beam satellites over the Asia-Pacific region, as described in more detail below under Ku-band and GEO/LEO Hybrid Satellite Technology.

In March 2017, we entered into a Master Service Agreement with SKY Perfect JSAT Corporation of Japan for use of its JCSAT-2B/Asia Beam Ku-band satellite telecommunication services, teleport services and housing services. The agreement's initial term runs for a period of three years from its commencement date of April 15, 2017, subject to the receipt of all governmental licenses and approvals, and will continue to be effective provided any of the services continue after the initial three-year term. We were required to prepay \$285,300 of the contract price and a security deposit plus applicable Japanese consumption taxes upon the commencement date of the agreement. Under this agreement, we are able to test the connectivity equipment that we have been developing for ground and maritime uses.

Our Aerkomm K++ system

Our proprietary IFEC system, which is called the AERKOMM K++ system, will contain an ultra-low profile radome containing two Ka-band antennas, one for transmitting and the other for receiving, and will comply with ARINC 791 standard of Aeronautical Radio, Incorporated, or ARINC and meets Airbus Design Organisation Approval.

Our Content Solutions

Traditionally, airlines view in-flight entertainment content as a budgeted expense for which they have to pay hefty royalties. With our business model and technologies, we expect to be able to transform in-flight entertainment into a source of ancillary revenue for our airline customers. We will team up with our current and future prospective airline customers to provide them with our Aerkomm K++ hardware system at no cost and with free onboard Wi-Fi connectivity services to passengers, which will allow us to maintain data traffic control, specifically in terms of blocking or placing advertisements as needed and inserting targeted commercials.

Premium Content Sponsorship

Recently, merchants have begun to take advantage of in-flight connectivity. In May of 2015, Amazon announced its plan to sponsor free video and music streaming for its Prime Video subscribers onboard JetBlue's planes. The Amazon and JetBlue partnership is a paradigm of a win-win affiliation between an Internet powerhouse and a provider of in-flight connectivity. Amazon gained a platform through which it could display its premium subscription services and expanded its distribution network, while JetBlue generated significant revenue simply by making its in-flight connectivity available to Amazon.

The Amazon-JetBlue partnership is only one of many examples whereby an Internet company can improve its reach by gaining access to in-flight connectivity. We seek to exemplify this type of relationship through collaboration with major Internet companies, such as search engine companies. We plan to promote a partner's brand through our in-flight services by channeling all searches to the partner's search engine. By designing our user interface around the partnered company, we can present passengers with an on-screen environment populated by the partner's apps, logos, and colors, providing a powerful marketing tool for the partner company. We can also enhance recognition of our sponsors' brands by creating a list of portals on the in-flight system's home screen, which lead to each sponsor's individual page where passengers can resume their normal entertainment, social, and professional activities.

We are actively in discussions with Internet content providers to establish such premium sponsorships.

Live TV

We are negotiating with television providers along our prospective airline partners' flight routes to make live TV available through our IFEC system. Airlines will be able to select live TV channels that are appropriate for each flight route. An electronic program guide channel listing will be available for easy viewing and selection.

Several revenue sources will be available for live TV broadcasting, including commercials before and during programs, and banners at the bottom of the screen. Banner advertisements at the bottom of the screen can be interactive, which should generate pay per click, or PPC, or cost per click, or CPC, revenue in addition to the

lower priced cost per thousand impressions, or CPM, revenue. In addition, we should be able to receive sponsorship premiums from select TV programs, such as pay-per-view and shopping channels.

Social Media and Instant Messaging: Content Management

We will have firewalls in place both on the ground and in the air. These, in combination with our policy enforcement software, will allow us to filter, classify, block, or forward services in accordance with our service and quality policies. We will be able to control the flow of traffic for each individual application, enabling us to use a white list model through which social media and instant messaging partners can provide their users with onboard access by paying an annual or other periodic fee.

We are in active discussions with Line, WeChat, WhatsApp, and other social media partners regarding an annual premium fee in exchange for user access to their applications and services during air travel. The access to other networks may be limited to a single direction or blocked entirely. For example, we could allow the users of a non-paying instant message service to receive, but not send, instant messages. When a user tries to respond to a received message, the system would present a pop-up message encouraging the user to urge the service provider to enter into a relationship with us.

Airlines will be able to select movies, videos, and other content for their passengers through our content management system. The management system will tailor content suggestions according to the flight route and destination and automatically upload selected content to an onboard server while the aircraft is on the ground. This creates a cache that allows in-flight viewing in areas with limited or no satellite bandwidth connectivity. For premium content, we may maintain a live connection with providers' networks for accounting and digital rights management purposes.

Video/Content on Demand

Content that is available to passengers for free will generate advertising-based revenue through commercials before and during programming, as well as through banners advertisements. Passengers will be able to choose to pay for premium content, such as first-run movies, where available. For programming of all types, our partnered advertising agents will be able to integrate appropriate and effective advertisements targeted to the viewer. Prior to the start of any program, users will be required to view a commercial with a length determined by the duration of the selected program. Passengers will not be able to skip or close this commercial without closing out of the program. We will be able to place similar advertisements before games or radio programs and during online duty-free shopping.

Frequent flyer passengers will be able to purchase a premium package to allow access to unlimited movies, games, and other entertainment contents with no layered advertising. These packages will include day, trip, monthly, and annual based membership options.

Search Engine

In this information age, people often refer to the Internet for information, yet few individuals are aware that every Internet search they perform generates revenue for the search engine company. Search engine providers, such as Google, Bing, and Yahoo, sell keywords, page ranking in search results, advertisement placement, and other related services. The revenue generated by a search engine fluctuates in relation to its volume of activity. We plan to manage search engines on a white list basis, which means that the in-flight connectivity system will only permit the passage of traffic to and from approved search engines. If a passenger performs a search on a search engine that is not partnered with us, the search will be redirected to one that is.

We plan to enter into agreements with search engine partners to share the revenue generated from passengers' searches. As discussed under "Premium Content Sponsorship" above, we may grant exclusivity to a particular search engine provider that is a premium sponsor. Such exclusivity may be specific to certain airlines or routes.

Internet Advertisement Replacement

In Internet traffic, more than 50% of the bandwidth that passes through satellites is consumed by advertisements in the data stream. In order to streamline bandwidth usage, our ground system will detect advertisements from a webpage and replaces them with advertisements from our advertisers or partners. We will

work with Internet advertisers to present advertisements that are relevant to passengers' interests. This system will enable our partners to place their advertisements accordingly and generate revenue for them and us. Advertisers can offer destination-specific commercials and banners, which can be placed in our in-flight entertainment system and in apps and portals on personal devices. By utilizing commercial agents to sell ad space on our systems, we plan to cover all marketable areas, expanding sales opportunities and increasing revenue.

With online advertisement utilizing both CPM and CPC models, we will be able to capitalize on virtually all available ad space and work with any advertising partner.

Online/Streaming Gaming

We plan to make it possible to stream console-quality games in the airline cabin. Through gaming content partnerships, we expect to be able to offer PlayStation, Xbox, and other console games. Passengers will be able to play popular games from their personal devices or in-flight entertainment systems, invite friends to play over the network, and save their gaming data for continued play on the ground. It will require high speed networks to play these interactive action games and we expect to be able to provide the services necessary for the functioning of these interactive games. Our online gaming service will bring our passengers a gaming experience never seen before. We expect to generate revenue from advertisements, including banners and commercials, and from fees for premium games or sales of access passes.

Telecommunications Text Messaging Services

Through strategic partnerships with telecommunication providers, we plan to allow passengers to use 4G messaging services while in flight. Our in-flight system is designed to detect whether a passenger is using one of our partner carrier's network and will deliver or block messages to and from a passenger's mobile phone accordingly. For those using a non-partner's network, the system will urge the passenger to request that their service provider join our network. Passengers will also be able to purchase a premium package to enable text message services.

Destination-Based Services

With flight route and passenger information, we expect that our partners will be able to offer destination-specific merchandise and services, including hotel and rental car bookings, transportation arrangements, restaurant reservations, local tours, ticket purchases, and travel insurance. By partnering with service partners in the region, we plan to share the transaction-based revenue on a fixed dollar amount or percentage of transaction basis.

In-flight Trading and e-Commerce

We have found that in-flight connectivity through our AERKOMM K++ system will allow travelers to make better use of their travel time. With uninterrupted broadband available onboard, passengers will be able to conduct business with professionalism and ease. For example, we plan to partner with trading partners who are registered with the various regulatory authorities to offer financial product trading services and we expect to charge a processing fee when a passenger conducts a trade in-flight. Additionally, a complete ecommerce platform made available through the AERKOMM K++ system will enable travelers to engage in unlimited on-line shopping, to make travel arrangements including holiday destinations, hotel bookings and car rentals and to complete duty-free purchases, among other options.

Black Box Live

For reasons of flight safety, a flight recorder, commonly known as a "black box", is legally required on every aircraft of a certain size. The Flight Data Recorder (FDR) records data with respect to various metrics of the flight and stores the data on a magnetic tape or solidstate disk with special coding. After retrieving the relevant information from the device, an individual can decode the data and learn what the aircraft encountered during the flight. This makes it possible to determine the potential causes of an accident. When the black box is needed, the aircraft has likely suffered an accident. A massive impact or explosion accompanies most airplane crashes, thus requiring the flight recorder to be shockproof and fire resistant. As a number of aviation accidents happen over oceans, the flight recorder must also be waterproof and corrosion-resistant to avoid being damaged by salt water. Despite advancements in flight recorder design and the continual improvement of the strength of materials used in manufacturing flight recorders, records show that a large number of flight recorders are damaged and unreadable following accidents, if not lost altogether. For this reason, effective, real-time storage and transmission

of in-flight data is beneficial for deducing the cause of aviation crashes and preventing them from happening again.

In March 2019, the aviation authorities around the world grounded the Boeing B737 MAX passenger airplane global fleet. This occurred after two new Boeing B737 MAX passenger airplanes crashed within 5 months of each other with fatal consequences. The first aircraft which crashed on October 29, 2018 belonged to Lion Air and the second aircraft which crashed on March 10, 2019 belonged to Ethiopian Airlines. The U.S. Federal Aviation Administration (FAA) and other worldwide aviation authorities worked in coordination to determine the cause of the crashes before issuing additional guidance. Before the causes could be determined, and within 24 hours of the Ethiopian Airlines crash, however, worldwide aviation authorities and operators began banning MAX flight operations. Although the minimal aircraft flight data available from the Ethiopian Airlines crash was not sufficient to link it to the Lion Air crash, there has been pressure from the aviation authorities and the airline operators to implement protective measures. The Boeing B737 MAX fleet was grounded more than two full days before the Ethiopian Airlines' FDR information was downloaded.

A path to a flight data retrieval solution has been initiated based on work that stems from the two earlier major accidents. The first case is the disappearance of the Malaysia Airlines Boeing B777 aircraft Flight 370 in March 2014. To-date, neither the aircraft nor the flight data recorder has been recovered and thus the case remains one of the biggest mysteries in aviation. The second case is an Air France Airbus A330 aircraft Flight 447 from Brazil to France which crashed in the Atlantic Ocean in June 2009. Although the major wreckage of this aircraft was found within 5 days of the accident, the initial investigation by the French aviation authorities was hampered because the aircraft's flight recorders were not recovered from the ocean until May 2011, nearly two years later.

The most widely discussed resulting changes from those two accidents are new International Civil Aviation Organization (ICAO) standards for tracking aircraft, included in Amendment 40 to ICAO Annex 6. However, Amendment 40 includes another element that could ultimately prove to be more useful: timely access to flight data. Airlines could meet the ICAO standard, which goes into effect in 2021, by streaming FDR data while in flight. Providers of the necessary hardware, software and communications services are teaming up to offer timely flight data solutions to operators.

With our new product, Black Box Live, we expect to be able to provide a system of real-time flight information back-up and streaming which will be aimed at advancing flight safety. Under strict security measures, this new product is being designed and engineered to securely stream flight data and crewmembers' cockpit voice records to our cloud-based storage solution for airlines and authorized individuals to access and monitor. Black Box Live is in the early stages of development and, at this time, we cannot assure you when this product will reach market, if at all.

Other Markets (Remote Locations and Maritime)

In addition to our focus on IFEC systems for aircraft, we have begun to develop related internet connectivity systems for other markets and applications. In this regard, we have already developed two connectivity systems, one for hotels, primarily for remote locations, and one for maritime use. Both systems operate through the Ku HTSs (high throughput satellites).

The Ku-band offers reliable service outside of the Ka-band coverage over the ocean and in mountainous regions and is aimed to cover remotely located hotels and resorts as well as the maritime sector. The Ku-band also supports the OneWeb and other LEO satellite constellation systems.

In these additional markets:

- i. We have already made limited sales of our connectivity solutions to hotels/resorts in remote areas. Additionally, we plan to sell our equipment to hotels and resorts located in remote ocean areas and mountain regions. We also plan to sell the bandwidth required through which to operate these systems, priced on a subscription plan basis.
- ii. We plan to begin selling our connectivity solutions to maritime vessels such as cruise liners, fishing vessels, ferry boats and yachts. We plan to sell our equipment to these categories of vessels as well as the bandwidth required through which these systems operate, priced on a subscription plan basis.

We are currently in the customer demonstration stage in the East Asia market with our maritime satellite communications equipment and services.

The picture below depicts Aircom's current maritime antenna.



We cannot be sure at this time that we will be successful marketing this product offering for remote locations and maritime use.

Satellite Ground Stations and Data Centers

To provide and operate our IFEC services, we will be required to obtain a telecommunications license. To obtain this license, we will need to have access to, or the planned availability of, a satellite ground station through which we will route our IFEC communications. A telecommunications license is issued by a telecommunications authority in the country where the satellite ground station is located. We plan to build our first satellite ground station and a data center in Taiwan, to support our operations in the Asian region, and, thus, we will have to apply for a telecommunications license in Taiwan.

A ground station's main purpose is to establish telecommunication links with satellites. IFEC systems on aircraft route their communications from a passenger's data terminal, such as a laptop, mobile phone or other internet accessible device, via satellites and through a ground station which acts as a traffic gateway, directing the onboard IFEC originated satellite signal to terrestrial networks such as the internet and back again. The ground station will house satellite antennae and other communication equipment. Satellite antennas must be located within the coverage of the satellites being used. Ground station satellite antennas are substantial in size, generally between 20 to 30 feet (7 to 9 meters) in diameter. As we expand our operation, we expect to have multiple dish antennas connecting to various satellites. Due to the strong electromagnetic radiation emitted by the antennas, a satellite ground station must be located in rural or industrial areas and it requires a substantial setback zone around the ground station.

Since our IFEC business model will require collecting and processing large amounts of data, it will be beneficial for us to have access to a high capacity data center for the storage and processing of big data. Such a data center should be built within the same region of, and close to, the ground station, because of synergies and technical advantages such as shorter network latency and cost savings in ground links between the ground station and data center. We expect that building our own satellite ground stations and data centers will, in the long run, create economic efficiencies and operational independence.

On July 10, 2018, we entered into a real estate sales contract with Tsai Ming-Yin, as seller, and Sunty Development Co., Ltd., as trustee, pursuant to which the parties agreed to definitive terms and conditions relating to the acquisition by Aerkomm Taiwan of a parcel of land located at the Taishui Grottoes in the Xinyi District of Keelung City, Taiwan. The parcel consists of approximately 6.3 acres of undeveloped land and is expected to be used by us to build our first satellite ground station and data center. We completed payment of the purchase price for the Taiwan land parcel in July 2019 and our agent has received all of the necessary title transfer documentation from the seller. According to the land use laws of Taiwan, we need to submit a usage plan and to obtain the necessary license or authorization for the intended usage before we can obtain an official certificate of title for the Keelung City land parcel. To complete this process, our Taiwan based subsidiary, Aerkomm Taiwan, will submit an application for a telecommunications license, or as it is known in Taiwan, a "Concession License for Satellite Mobile Communications Operation," to the National Communications Commission of the Republic of China

(Taiwan), the government entity responsible for regulating telecommunications in Taiwan. Following the issuance of this Concession License, Aerkomm Taiwan will file an application with the Keelung City municipality, where our Taiwan land parcel is located, for a land development license. Once we receive this development license, Aerkomm Taiwan will then be able to file an application with the Keelung City land office to receive the certificate of title to our Taiwan land parcel. Although we expect to complete this process and receive our certificate of title by sometime in the first quarter of 2021, we cannot provide any assurance of this timing. Once we receive the certificate of title, we expect to be able to mortgage the property to borrow the funds we will need to build the ground station. Aerkomm Taiwan is currently preparing the plan of usage and is working with various regulatory authorities to obtain the necessary license and approval to meet the local land use law requirements. We do not know at this time how long it will take to complete the process and receive the certificate of title to the parcel.

Additionally, we have signed a binding memorandum of understanding with a Samoa based telecom company to lease the Taiwan land parcel, once title has been transferred to us, for a period of five years at an expected rental income to us of approximately \$2.3 million per year. This telecom company plans to build a separate satellite ground station and data center on the parcel and we may lease back a portion of the land to build our own satellite ground station and data center if and when we have sufficient funds to do so. The five-year lease, if it is consummated, would provide us with additional working capital to supplement the funds that we raised in our 2018/2019 public offering, to help us further our core corporate development efforts.

There can be no assurance that we will be able to successfully complete the land lease arrangements with the Samoa based telecom company or otherwise finance and build our planned satellite ground station and data center or that we will be able to cover the various costs, including but not limited to property taxes, to maintain the Taiwan land parcel.

Our Contracts with Airline Partners

Airbus SAS

On November 30, 2018, in furtherance of a memorandum of understanding signed in March 2018, Aircom entered into an agreement with Airbus SAS, or Airbus, pursuant to which Airbus will develop and certify a complete retrofit solution allowing the installation of our “AERKOMM K++” system on Airbus’ single aisle aircraft family including the Airbus A319/320/321, for both Current Engine Option (CEO) and New Engine Option (NEO) models. We expect to expand our agreement with Airbus to include other Airbus models including the Airbus A330, A340, A350 and A380 series. Airbus will apply for and obtain on our behalf a Supplemental Type Certificate (STC) from the European Aviation Safety Agency, or EASA, as well as from the U.S. Federal Aviation Administration or FAA, for the retrofit AERKOMM K++ system. It is anticipated that the Bilateral Aviation Safety Agreement between EASA and the Civil Aviation Administration of China, or CAAC, will be finalized and go into effect sometime in 2020. If the Bilateral Agreement is finalized in its present form, the STC approved by EASA will automatically be accepted by CAAC. This would significantly reduce the cost and time required for us to launch our business with China based customers.

Pursuant to the terms of our Airbus agreement, Airbus agreed to provide Aircom with the retrofit solution which will include the Service Bulletin and the material kits including the update of technical and operating manuals pertaining to the aircraft and provision of aircraft configuration control. The timeframe for the completion and testing of this retrofit solution, including the certification, is approximate 16 months from the purchase order issued in August 2018, although there is no guarantee that the project will be successfully completed in the projected timeframe. Once the project is completed, Aircom, or Airbus on behalf of Aircom, will be able to commence installation of the AERKOMM K++ system on aircraft in the second quarter of 2021.

A number of airlines, and in particular aircraft lessors, will accept only Service Bulletins issued by the aircraft manufacturers for the retrofit installation of any system on board their aircraft. Our agreement with Airbus ensures that our system will meet this requirement for aircraft lessors who intend to purchase Airbus aircraft, although it does not guarantee that airlines or aircraft lessors will purchase our AERKOMM K++ system.

Airbus Interior Services

On July 24, 2020, our wholly owned subsidiary, Aerkomm Malta, entered into an agreement with Airbus Interior Services, a wholly-owned subsidiary of Airbus. This new agreement follows the agreement that Aircom signed with Airbus on November 30 2018 pursuant to which Airbus agreed to develop, install and certify the Aerkomm K++ System on a prototype A320 aircraft to EASA and FAA certification standards, Airbus Interior

Services provides current cabin upgrade solutions for Airbus aircraft operators while bringing additional flexibility and reduced lead times to the cabin upgrade process. Pursuant to the agreement with Aerkomm Malta, Airbus Interior Services will provide and certify, via the Airbus Design Organization Approval process, a complete retrofit solution to develop EASA/FAA certified Service Bulletins, to supply related Aircraft Modification Kits and to install the Aerkomm K++ Connectivity solution on the A320 family of commercial aircraft. This new agreement also includes Airbus support for the integration of the Aerkomm K++ System components on the aircraft, including ARINC 791 structural reinforcements and related engineering work.

Airbus Interior Services will provide support for European National Airworthiness Authorities (NAA) certification as required in addition to EASA certification. Airbus Interior Services will also provide on-site technical support at the Maintenance Repair Organization (MRO) base for the first aircraft retrofit of each new customer.

We plan to install the Airbus Interior Services created Service Bulletin and Airbus kits for the AERKOMM K++ retrofit solution first on the Hong Kong Airlines fleet of 12 Airbus A320 aircraft. With this installation, Hong Kong Airlines will become Aerkomm's first commercial airline customer.

Hong Kong Airlines

In June 2015, we entered into a master agreement with Hong Kong Airlines Limited, or Hong Kong Airlines, to install IFEC systems onboard their aircraft. Also party to this agreement is Klingon Aerospace, Inc., or Klingon, our product development partner and valueadded reseller in the region where Hong Kong Airlines operates. Daniel Shih, our co-founder, was Chairman of Klingon from February 2015 to February 2016, and Peter Chiou, our former Chairman, Chief Executive Officer and President, was Chief Executive Officer and President of Klingon from March 2015 through April 2016, prior to his joining our company in February 2017. A Memorandum of Understanding, or the HKA MOU, was also signed with Hong Kong Airlines in July 2015 in order to assist Aircom to develop its AERKOMM AirCinema system, which is a wireless seat back screen entertainment system with on-line capability.

On January 30, 2020, further to the master agreement with Hong Kong Airlines and the HKA MOU, Aircom signed an agreement with Hong Kong Airlines to provide to Hong Kong Airlines both of its Aerkomm AirCinema and AERKOMM K++ IFEC solutions. This agreement does not include Klingon as a party and Klingon is no longer involved in our contractual relationship with Hong Kong Airlines.

Under the terms of this new agreement, Aircom will provide its Ka-band AERKOMM K++ IFEC system for installation on Hong Kong Airlines' fleet of 12 Airbus A320 and 5 Airbus A330-300 aircraft as well as its AERKOMM AirCinema system for the Hong Kong Airlines Airbus A320 aircraft. Hong Kong Airlines will become the first commercial airliner launch customer for Aircom.

The AERKOMM AirCinema system, which Aircom is designing and implementing specifically for Hong Kong Airlines, will introduce free high-speed internet access to the seat back screens of Hong Kong Airlines' Airbus A320 aircraft, connected via the Ka-band AERKOMM K++ IFEC system. Instead of the traditionally preloaded and fixed selection of in-flight entertainment, passengers will have access to high-speed internet steaming services for videos, music, live TV and social media. Aircom and Hong Kong Airlines will work closely together to develop the AERKOMM AirCinema system, thus making Hong Kong Airlines the launch customer for this innovative solution.

The AERKOMM K++ IFEC system will also provide passengers of Hong Kong Airlines with an "at home" network experience by giving free access to on-board WiFi internet connectivity to all passenger personal devices, including laptops, mobile phones and tablets. The AERKOMM K++ system will be ready "future-proof" and compatible with the next generation of satellite technologies. This system will also provide passengers of Hong Kong Airlines with access to e-commerce amenities, such as In-Flight shopping and travel services. Details and terms about the services to be provided via the AERKOMM K++ system is being actively discussed by Aircom and Hong Kong Airlines and will be set forth in one or more service level agreements to be entered into by the parties.

In order to install the AERKOMM K++ system on the Hong Kong Airlines aircraft, we will have to obtain local approval for the AERKOMM K++ system from the Hong Kong Civil Aviation (HKCAD). This HKCAD local approval will be based on our obtaining the Airbus Service Bulletin, which we expect to receive from Airbus, together with EASA certification, by sometime in the fourth quarter 2020. Once we receive the

Airbus Service Bulletin and the EASA certification, jointly with the support of Airbus, we will be able to apply to the HKCAD for the required local approval.

As an interim solution for Hong Kong Airlines, until the Aerkomm K++ System can be fully retrofitted onto the Hong Kong Airlines aircraft fleet, Aircom plans to install the Aerkomm AirCinema “Cube” on Hong Kong Airlines fleet of A320 and A330 aircraft during the fourth quarter of 2020. The AirCinema Cube is a portable inflight entertainment, or IFE, box intranet server which will provide to passengers’ personal entertainment devices pre-loaded videos, news, music and games, on demand. Media content will be jointly managed by Aircom and Hong Kong Airlines and content updates will be provided regularly by Aircom.

Other Airline Partners and Business Jets Customers

We are actively working with prospective airline customers to provide them with the Airbus to-be-certified AERKOMM K++ system.

We have entered into non-binding memoranda of understanding, or MOUs, with a number of airlines, including Air Malta of Malta which owns a fleet of 12 Airbus A320 aircraft, and Onur Air of Turkey with a fleet of 14 Airbus A320 aircraft. There can be no assurances, however, that these MOUs will lead to actual purchase agreements.

Currently, we are finalizing MOUs with the following airlines, although we cannot assure you that we will be able to finalize any of these agreements:

Nouvelair Tunis: Fleet of 6 Airbus A320 aircraft

Tigerair Taiwan: Fleet of 11 Airbus A320

Hong Kong Express: Fleet of 13 Airbus A320 and 11 Airbus A321

We are in advanced active discussions with a number of major airlines in Europe, the Middle East and Asia, and we are confident, although we cannot guarantee, that we will be successful in signing MOUs with one or more of these companies. Additionally, we are close to signing a definitive agreement with a major airline company having a large fleet of aircraft; however, in view of a mutual nondisclosure agreement with this party, we cannot disclose the name at this stage, and we cannot guarantee that we will be successful in signing a definitive agreement with this company.

In connection with the Airbus project, we have also identified owners of Airbus Corporate Jet, or ACJ, as potential customers of our AERKOMM K++ system. ACJ customers, however, would not generate enough internet traffic to make our free-service business model viable. To capitalize on this additional market, we plan to sell our AERKOMM K++ system hardware for installation on ACJ corporate jets and provide connectivity through subscription-based plans. This new corporate jet market could generate additional revenue and income for our company.

As discussed below, we have entered into an agreement with MJet GMBH, an Airbus ACJ customer, and we are currently in advanced discussions with a number of additional ACJ customers, some of whom have more than one aircraft in their fleets.

While, to date, we have been concentrating on Airbus customers in view of our existing agreement with Airbus, our current plan is to also begin marketing to Boeing aircraft customers and Boeing Business Jets (BBJ) customers, and we intend to acquire the necessary certification of our AERKOMM K++ system equipment for the different Boeing aircraft models, with a particular focus on the Boeing B737 aircraft family. We have already carried out discussions and negotiations with AKKA Technologies based in Toulouse France, which is a specialist aerospace and aviation design organization, for providing us with a Service Bulletin and Supplemental Type Certificate for the Boeing B737 family, including certification from EASA. We anticipate that we will sign an agreement with AKKA Technologies in the third quarter 2020, although we cannot guarantee this. Once an agreement is signed with AKKA, the project of developing the Service Bulletin and Supplemental Type Certificate for our AERKOMM K++ system equipment for the Boeing B737 family of aircraft and obtaining EASA certification for this aircraft line is expected to take approximately nine months.

We plan to enter into business agreements with additional airline partners and corporate jet owners, which will allow our antenna equipment and/or entertainment services to be installed, and our services provided, on additional fleet aircraft. Under any such agreements, we expect that the airlines will commit to have our equipment installed on some or all of the aircraft they operate, and we will commit to provide passenger connectivity and/or entertainment services on such aircraft and to remit to the airlines a specified percentage of the revenue that we generate. We expect to have the exclusive right to provide Internet connectivity services on these aircraft throughout the term of the agreements we expect to enter into with such airline partners. Depending on the contract, installation and maintenance services may be performed by the airline under our supervision or sub-contracted to a maintenance repair organization, or MRO, mutually agreed upon by both Aircom and the airline. These agreements will also vary as to who pays for installation and maintenance of our AERKOMM K++ system. We cannot guarantee that we will be able to enter into any such additional agreements.

Other Agreements and Understandings with Our Business Partners

Definitive Agreements

Yihe Culture Media Agreement: On June 20, 2018, we entered into a Cooperation Framework Agreement with Shenzhen Yihe Culture Media Co., Ltd., or Yihe, the authorized agent of Guandong Tengan Internet, pursuant to which Yihe will promote the development of strategic cooperation between us and Guandong Tengan Internet. Specifically, Yihe agreed to assist us with public relations and advertising, such as market and brand promotion, as well as brand recognition in China (excluding Hong Kong, Macau and Taiwan), including but not limited to news dissemination, creative planning and support of campaigns, financial public relations and internet advertising. More specifically, Yihe will help us to develop a working application of the WeChat Pay payment solutions as well as WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes, and will assist us in integrating other Tencent internet-based original product offerings. As compensation, we agreed to pay Yihe RMB 8 million (approximately US\$927,000) to be paid by August 15, 2018. On July 19, 2019, Yihe and we agreed to extend the expiration date for the agreement to June 20, 2022. We had paid the remaining RMB6,000,000 on August 12, 2019.

MJet GTA: On March 6, 2019, we signed a General Terms Agreement (GTA) with MJet GMBH, or MJet, a corporate jet owner operating an Airbus ACJ A319 based in Vienna, Austria. On June 11, 2019 we converted this GTA into a definitive agreement with MJet, and on June 12, 2019, MJet placed a first purchase order with Aircom. The purchase order provides for the provision, installation, testing and certification of our AERKOMM K++ system equipment, including the Airbus Service Bulletin and associated material kit and related connectivity services, on an MJet Airbus ACJ A319 aircraft under the supervision of Airbus. Assuming the installation, testing and certification of our AERKOMM K++ system on the MJet A319 is successful, something we cannot guarantee at this time, MJet will pay us a one-time fee for our equipment and a monthly fee for our connectivity services, and we will also begin charging MJet for the bandwidth required to use the AERKOMM K++ system services. Assuming the success of this installation, MJet will become the first recurring payment customer of our AERKOMM K++ system as well as being the launch customer of our Aerkomm K++ solution.

Telesat Cooperation Agreement: On June 23, 2020, we entered into a cooperation agreement with Telesat Leo Inc., or Telesat, a wholly owned subsidiary of Telesat Canada. Telesat is one of the world's largest and most successful satellite operators providing critical connectivity solutions that tackle complex communications challenges. Through this agreement, we and Telesat will jointly collaborate to develop a test program for the Telesat low-Earth-orbit (LEO) Network, Telesat's network of low-earth orbit satellites for aircraft connectivity, to assess the technical and commercial viability of incorporating the Telesat LEO Network capacity into our IFEC product portfolio and network. We and Telesat will collaborate in both technical and commercial activity. The two parties' technical collaboration is expected to include testing network performance, leveraging Telesat's Phase 1 LEO satellite which has been in polar orbit since 2018, ensuring compatibility with existing Aircom IFEC solutions and future user terminal solutions, and end-to-end implementation within regulatory guidelines. Commercial collaboration will include optimizing business and operating models, joint presentations and information sessions with key customers and partners, and exploring a long-term joint development plan. This cooperation agreement between us and Telesat is preliminary and nonbinding and subject to the negotiation and execution of a definitive agreement. We expect that a definitive agreement will be signed, although there can be no assurance when this will happen, if at all.

Yuan Jiu Inc.: On March 20, 2020, Aircom and Yuanjiu Inc., or Yuanjiu, a Taiwanese public company, signed a nonbinding memorandum of understanding, the Yuanjiu MOU, with respect to the development, manufacture and purchase of AERKOMM K++, AirCinema Cube equipment for installation on the aircraft of

Hong Kong Airlines. On May 11, 2020, we terminated the Yuanjiu MOU and, through our Taiwan based subsidiary, Aircom Taiwan, entered into a binding product purchase agreement with Yuanjiu, replacing the Yuanjiu MOU, to purchase 100 sets of the AirCinema Cube from Yuanjiu. On July 15, 2020, Aircom Taiwan signed a second product purchase agreement with Yuanjiu for an additional 100 sets of the AirCinema Cube.

MOUs

Malta MOU: On February 23, 2018, Aircom entered into a nonbinding memorandum of understanding which we refer to as the Air Malta MOU, with Air Malta, a company organized under the laws of Malta, pursuant to which the parties intend to collaboratively market and provide their products and servers to passengers of the Malta-based airline fleet. Under the terms of the Air Malta MOU, the parties intend to develop, install and operate in-flight connectivity systems onboard the Malta-based airline fleet and provide related services to its passengers. Subject to finalizing the terms of the agreement, we anticipate that this MOU will be converted into a definitive agreement during the fourth quarter of 2020.

Onurair MOU: On March 1, 2018, Aircom entered into a nonbinding memorandum of understanding, which we refer to as the Onurair MOU, with Onurair Tasimacilik A.S., a company organized under the laws of Turkey, pursuant to which the parties intend to collaboratively market and provide their products and services to passengers of the Turkey-based airline fleet. Under the terms of the Onurair MOU, the parties intend to develop, install and operate in-flight connectivity systems onboard the Turkey-based airline fleet and provide related services to its passengers. We cannot assure you, however, we will be able to enter into a definitive agreement with Onurair, or that the Onurair MOU will lead to any Aercomm product sales.

Yahoo MOU: On January 19, 2016, Aircom entered into a nonbinding memorandum of understanding, which we refer to as the Yahoo MOU, with Yahoo! Hong Kong Limited, or Yahoo, pursuant to which, the parties intended to collaboratively market and provide their products and services to commercial airlines in Asia. Through its affiliates, Yahoo provides customers internet related services including software, content, communications, media and commerce services. According to the Yahoo MOU, Yahoo intended to use our IFEC system to provide in-flight services to its customers. In addition, the parties intended to collaborate on destination-based marketing and to develop a revenue-share scheme on the advertising revenue arising from the in-flight services. We expected that Yahoo would be the exclusive provider of pre-roll video ads on our AERKOMM K++ IFEC system in exchange for committed revenue from Yahoo. The parties further intended to collaborate and develop the necessary interface to support interaction and/or integration between our backend and each of Yahoo's websites and Yahoo's applications. All present and future intellectual property rights related to IFEC system were expected to solely belong to us or the third-party or third parties from whom we obtained the right of use. The Yahoo MOU had a term of two years and expired on January 19, 2018. Aircom expects to enter into discussions with Yahoo! Hong Kong to reinstate this MOU for an additional period of time, although there can be no assurances that it will be successful in these discussions. All of the above MOUs are nonbinding and, as a result, they only express the desires and understandings between the parties and do not create any legally binding rights, obligations or contracts except for certain customary provisions such as exclusivity, costs and expenses, confidentiality and governing law. Any binding obligation to proceed with the transactions contemplated by the MOUs would need to be included in a definitive agreement that is subject to negotiation by the parties, approvals by the board of directors of respective parties and in certain instances, approvals from regulatory authorities. There can be no assurance that we will be able to enter into such definitive agreements or receive the required governmental approvals, and there can be no assurances that any of the expired MOUs will be extended or renewed. If for whatever reason the transactions contemplated by the MOUs do not proceed, our results of operations and financial condition could be materially adversely affected.

Product Development, Manufacturing, Installation and Maintenance

We plan to provide airline partners and corporate jet owners with the equipment necessary for in-flight connectivity, which will be installed by either the airline at their own maintenance facility or at an approved maintenance repair organization, or MRO, service provider mutually selected by Aircom and the airline. We will also provide training and technical support to each airline's MRO for the installation of our equipment. Such support will also include technical, management, and operational support, with 24/7 network monitoring of the performance of each aircraft's equipment once in operation.

We will rely on third-party suppliers for equipment components that we will use to provide our services, including those discussed below. We will purchase our ground station equipment from Blue Topaz Consultants, Ltd., or BTC, under an agreement that we have with BTC dated December 15, 2015. Under the terms of this

agreement, BTC will develop and provide to us four (4) sets of ground station hub equipment, or the Hub Equipment, for our use and sale into our Asian markets. We and BTC will separately enter into service agreements for the installation and maintenance of the Hub Equipment systems. We have agreed to pay BTC \$6,205,216 for the first Hub Equipment system and have already made milestone payments to BTC totaling \$3,250,000. The purchase price for the first Hub Equipment system was increased to \$6,234,260 on November 30, 2016 due to the increase in cost of a system required software license. We will be required to pay BTC the balance of \$2,984,260 owed on the first Hub Equipment system following delivery and service commencement of this system. We expect to install this Hub Equipment in the ground station that we intend to build on the parcel of land we have acquired in Taiwan, once we receive title to that land and can proceed with a related ground station financing arrangement. We cannot at this time estimate when this project will move forward or be completed.

Transcoding

The current mainstream video compression format is H.264, also known as MPEG-4 Advanced Video Coding. It is widely used in Blu-ray discs, online videos, web software, and HDTV broadcasts terrestrially and over cable and satellite.

H.265, also known as High Efficiency Video Coding, is a newly developed video compression standard designed to replace H.264. It is capable of delivering H.264 video quality at half the bit rate. H.265 has several significant advantages over H.264, including better compression, higher image quality, and lower bandwidth usage.

In our AERKOMM K++ system, we incorporate hardware-based, real-time technology that transcodes content from multiple streaming or broadcast input forms. We convert the content into H.265-encoded Internet protocol, or IP, streams, which reduces the amount of bandwidth required while enhancing the quality of the content. By deploying real-time transcoding technology in its ground and airborne systems, we enable live TV and video streaming in an IP format that, we expect, can optimize satellite bandwidth utilization and achieves cost-effective content delivery.

Satellite Link Acceleration

The most common transmission control protocols, or TCPs, used on the Internet have been designed for terrestrial wired networks. TCPs do not perform well in a long-delay satellite environment and may cause bad user experiences in web surfing and Internet access. Our satellite link acceleration technology improves TCP/IP-based data transmission over a satellite system through compression, deduplication (i.e., eliminating redundant information), caching, latency optimization, packet aggregation, and cross-layer enhancement. This technology includes end-to-end software in airborne systems and ground servers for cost effective application acceleration and optimization of live TV and video streaming. This combination of technologies makes airborne internet access and content access feel like fiber at home.

Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

On October 15, 2018, Aircom Telecom entered into a product purchase agreement, or the October 15th PPA, with Republic Engineers Maldives Pte. Ltd., a company affiliated with Republic Engineers Pte. Ltd., or Republic Engineers, a Singapore based, private construction and contracting company. On November 30, 2018, the October 15th PPA was re-executed with Republic Engineers Pte. Ltd. as the signing party. We refer to this new agreement as the November 30th PPA and, together with the October 15th PPA, the PPA. Under the terms of the PPA, Republic Engineers committed to the purchase of a minimum of 10 shipsets of the AERKOMM K++ system at an aggregate purchase price of \$10 million. Additionally, under the terms of the PPA, the Executive Director of Republic Engineers, C. A. Raja, agreed to sign an agreement, or the Guarantee, to guarantee all of the obligations of Republic Engineers under the PPA. Republic Engineers had submitted a purchase order, or PO, dated October 15, 2018 for the 10 shipsets and was supposed to have made payments to Aircom Telecom against the purchase order shortly thereafter. To date, Republic Engineers has made no payments against the purchase order and the Company has not begun any work on the ordered shipsets. On July 7, 2020, Republic Engineers and

Mr. Raja filed a complaint against Aerkomm, Aircom and Aircom Telecom in the Superior Court of the State of California for the County of Alameda, or the Court, seeking declaratory relief only and no money damages, alleging that the PPA and the PO were not executed or authorized by Republic Engineers and that the Guarantee was not executed or authorized by Mr. Raja. Republic Engineers and C. A. Raja have requested from the Court (i) orders that the PPA, the PO and the Guarantee be declared null and void and (ii) the payment of their reasonable attorney's fees. On July 29, 2020, Aircom Telecom provided notice to Republic Engineers that the PPA and the PO have been terminated according to their terms as a result of the non-performance of Republic Engineers and the Failure of Mr. Raja to provide the Guarantee. Aerkomm denies the allegations in the complaint and believes that the claims filed by Republic Engineers and Mr. Raja have no merit. Aerkomm has retained special litigation counsel and intends to vigorously defend against the claims. Aerkomm does not expect that this proceeding will have a material adverse effect on its results of operations or cashflow.

On June 20, 2018, we entered into the Cooperation Framework Agreement, as supplemented on July 19, 2019, with Shenzhen Yihe Culture Media Co., Ltd., or Yihe, the authorized agent of Guangdong Tengen Internet, or Tencent Group, pursuant to which Yihe agreed to assist the Company with public relations, advertising, market and brand promotion, as well as with the development of a working application of the Tencent Group WeChat Pay payment solution and WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes. As compensation under this Yihe agreement, we paid Yihe RMB 8 million (approximately US\$1.2 million). On October 16, 2020, in accordance with the provisions of the agreement with Yihe, as supplemented, we filed an arbitration action with the Shenzhen International Arbitration Court, or the Arbitration Court, claiming that Yihe failed to perform under the terms of the supplemented agreement and seeking a complete refund of our RMB 8 million payment to Yihe. We received notice from the Arbitration Court on October 16, 2020 of receipt of our arbitration filing and the requirement to pay the Arbitration Court RMB 190,000 in fees relating to the arbitration. We intend to aggressively pursue this matter.

Regulations

As a participant in the global airline and global telecommunication industries we are subject to a variety of government regulatory obligations.

Federal Aviation Administration

The FAA prescribes standards and certification requirements for the manufacturing of aircraft and aircraft components, and certifies and rates repair stations to perform aircraft maintenance, preventive maintenance and alterations, including the installation and maintenance of aircraft components. Each type of aircraft operated in the United States under an FAA-issued standard airworthiness certificate must possess an FAA Type Certificate, which constitutes approval of the design of the aircraft type based on applicable airworthiness standards. When a party other than the holder of the Type Certificate develops a major modification to an aircraft already typecertificated, that party must obtain an FAA-issued STC approving the design of the modified aircraft type. We will regularly obtain an STC for each aircraft type operated by each airline partner on whose aircraft our equipment will be installed and separate STCs typically are required for different configurations of the same aircraft type, such as when they are configured differently for different airlines.

After obtaining an STC, a manufacturer desiring to manufacture components to be used in the modification covered by the STC must apply to the FAA for a PMA, which permits the holder to manufacture and sell components manufactured in conformity with the PMA and its approved design and data package. In general, each initial PMA is an approval of a manufacturing or modification facility's production quality control system. PMA supplements are obtained to authorize the manufacture of a particular part in accordance with the requirements of the pertinent PMA, including its production quality control system. We routinely apply for and receive such PMAs and supplements.

Our business depends on our continuing access to, or use of, these FAA certifications, authorizations and other approvals, and our employment of, or access to, FAA-certified individual engineering and other professionals. In accordance with these certifications, authorizations and other approvals, the FAA requires that we maintain, review and document our quality assurance processes. The FAA may also visit our facilities at any time as part of our agreement for certification as a manufacturing facility and repair station to ensure that our facilities, procedures, and quality control systems meet FAA approvals we hold. In addition, we are responsible for informing the FAA of significant changes to our organization and operations, product failures or defects, and any changes to our operational facilities or FAA-approved quality control systems. Other FAA requirements include training procedures and drug and alcohol screening for safety-sensitive employees working at our facilities.

Foreign Aviation Regulations

According to international aviation convention, the airworthiness of FAA-certified equipment installed on U.S.-registered aircraft is recognized by civil aviation authorities, or CAAs, worldwide. As a result, we do not expect to require further airworthiness certification formalities in countries outside of the United States for U.S.-registered aircraft that already have an STC issued by the FAA covering our equipment. For aircraft registered with a CAA other than the United States, the installation of our equipment requires airworthiness certification from an airworthiness certification body. Typically, the CAA of the country in which the aircraft is registered is responsible for ensuring the airworthiness of any aircraft modifications under its authority.

The FAA holds bilateral agreements with a number of certification authorities around the globe. Bilateral agreements facilitate the reciprocal airworthiness certification of civil aeronautical products that are imported/exported between two signatory countries. A Bilateral Airworthiness Agreement, or BAA, or Bilateral Aviation Safety Agreement, or BASA, with Implementation Procedures for Airworthiness provides for airworthiness technical cooperation between the FAA and its counterpart civil aviation authorities. Under a BAA or BASA, the CAA of the aircraft's country of registration generally validates STCs issued by the FAA and then issues a VSTC. For countries with which the FAA does not have a BAA or BASA, we must apply for certification approval with the CAA of the country in which the aircraft is registered. In order to obtain the necessary certification approval, we will be required to comply with the airworthiness regulations of the country in which the aircraft is registered. Failure to address all foreign airworthiness and aviation regulatory requirements at the commencement of each airline partner's service in any country in which they register aircraft when there are no applicable bilateral agreements may lead to significant additional costs related to certification and could impact the timing of our ability to provide our service on our airline partners' fleet.

Federal Communications Commission

Under the Communications Act of 1934, as amended, or the Communications Act, the FCC licenses the spectrum that we use and regulates the construction, operation, acquisition and sale of our wireless operations. The Communications Act and FCC rules also require the FCC's prior approval of the assignment or transfer of control of an FCC license, or the acquisition, directly or indirectly, of more than 25% of the equity or voting control of our company by non-U.S. individuals or entities.

Our various services are regulated differently by the FCC. Our business may provide some of its voice and data services by reselling the telecommunications services of satellite operators. Because we may provide these services on a common carrier basis, we may be subject to the provisions of Title II of the Communications Act, which require, among other things, that the charges and practices of common carriers be just, reasonable and non-discriminatory.

We provide broadband Internet access to commercial airlines and passengers. We plan to offer this service in the Asia-Pacific region and continental United States through our partner's facilities, using satellite-based data delivery.

The FCC has classified mobile (and fixed) broadband Internet access services as Title II telecommunications services pursuant to the FCC Open Internet Order of 2010. The Open Internet Order also adopted broad new net neutrality rules. For example, broadband providers may not block access to lawful content, applications, services or non-harmful devices. Broadband providers also may not impair or degrade lawful Internet traffic on the basis of content, applications, services or non-harmful devices. In addition, broadband providers may not favor some lawful Internet traffic over other lawful traffic in exchange for consideration of any kind, and they may not prioritize the content and services of their affiliates. Other than for paid prioritization, the rules contain an exception for "reasonable network management." The Open Internet Order recognizes that whether a network management practice is reasonable varies according to the broadband technology involved, and provides more flexibility to implement network management practices in the context of our capacity-constrained satellite broadband networks.

In addition, most of our services are subject to various rules that seek to ensure that the services are accessible by persons with disabilities, including requirements related to the pass-through of closed captioning for certain IP-delivered video content.

Equipment Certification

We may not lease, sell, market or distribute any radio transmission equipment used in the provision of our services unless such equipment is certified by the FCC as compliant with the FCC's technical rules. All certifications required for equipment currently used in the provision of our services have been obtained by our equipment vendors and/or partners.

Privacy and Data Security-Related Regulations

As noted above, the Open Internet Order reclassified mobile (and fixed) broadband Internet access services as Title II telecommunications services. Certain statutory provisions of Title II now apply to broadband Internet access services, including provisions that impose consumer privacy protections such as CPNI requirements.

Our services are also subject to CPNI rules that require carriers to comply with a range of marketing and privacy safeguards. These obligations focus on carriers' access, use, storage and disclosure of CPNI. We believe we are in compliance with these rules and obligations, and we certify annually, as required, that we have established operating procedures adequate to ensure our compliance.

We are also subject to other federal and state consumer privacy and data security requirements. For example, Section 5 of the FTC Act prohibits "unfair or deceptive acts or practices in or affecting commerce." Although the FTC's authority to regulate the non-common carrier services offered by communications common carriers has not been clearly delineated, FTC officials have publicly stated that they view the FTC as having jurisdiction over Internet service providers' non-common carrier services. Some of our services are subject to the FTC's jurisdiction. The FTC has brought enforcement actions under the FTC Act against companies that, inter alia: (1) collect, use, share, or retain personal information in a way that is inconsistent with the representations, commitments, and promises that they make in their privacy policies and other public statements; (2) have privacy policies that do not adequately inform consumers about the company's actual practices; and (3) fail to reasonably protect the security, privacy and confidentiality of nonpublic consumer information.

We plan to collect personally identifiable information, such as name, address, e-mail address and credit card information, directly from our users when they register to use our service. We also may obtain information about our users from third parties. We use the information that we collect to, for example, consummate their purchase transaction, to customize and personalize advertising and content for our users and to enhance the entertainment options when using our service. Our collection and use of such information is intended to comply with our privacy policy, which is posted on our website, applicable law, our contractual obligations with third parties and industry standards, such as the Payment Card Industry Data Security Standard. We are also subject to state "mini-FTC Acts," which also prohibit unfair or deceptive acts or practices, along with data security breach notification laws requiring entities holding certain personal data to provide notices in the event of a breach of the security of that data. Congress has also been considering similar federal legislation relating to data breaches. A few states have also imposed specific data security obligations. These state mini-FTC Acts, data security breach notification laws, and data security obligations may not extend to all of our services and their applicability may be limited by various factors, such as whether an affected party is a resident of a particular state.

While we intend to implement reasonable administrative, physical and electronic security measures to protect against the loss, misuse and alteration of personally identifiable information, cyber-attacks on companies have increased in frequency and potential impact in recent years and may be successful despite reasonable precautions and result in substantial potential liabilities.

Truth in Billing and Consumer Protection

The FCC's Truth in Billing rules generally require full and fair disclosure of all charges on customer bills for telecommunications services, except for broadband Internet access services. Thus, these rules apply to our satellite-based services. This disclosure must include brief, clear and non-misleading plain language descriptions of the services provided. States also have the right to regulate wireless carriers' billing; however, we are not currently aware of any states that impose billing requirements on our services.

CALEA

The FCC has determined that facilities-based broadband Internet access providers are subject to the CALEA, which requires covered service providers to build certain law enforcement surveillance assistance capabilities into their communications networks and to maintain CALEA-related system security policies and procedures.

Foreign Government Approvals

In connection with our satellite service, we have implemented a process for obtaining any required authority needed to provide our service over the airspace of foreign countries, or verifying that no additional authorization is needed. Each country over which our equipped aircraft flies has the right to limit, regulate (e.g., through a licensing regime) or prohibit the offering of our service. We may not be able to obtain the necessary authority for every country over which a partner airline flies. For some countries, we have not been and do not expect to be able to obtain a definitive answer regarding their potential regulation of our service, and we may incur some regulatory risk by operating over the airspace of these countries. Failure to comply with foreign regulatory requirements could result in penalties being imposed on us and/or on our airline partners or allow our airline partners affected by such requirements to terminate their contract with us prior to expiration. Moreover, even countries that have previously provided clearance for our service have the right to change their regulations at any time.

Emerging Growth Company Status

We qualify as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:

- have an auditor report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to shareholder advisory votes, such as “say-on-pay” and “say-on-frequency;” and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer’s compensation to median employee compensation.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed \$1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our Common Stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

Properties

The Group's land had a book value of US\$35.9 million in the Company's consolidated accounts as of December 31, 2019.

As of December 31, 2019, the Group has not mortgaged the land to secure any of its obligations.

The Group's land had a book value of US\$35,861,589 in the Company's unaudited consolidated accounts as of September 30, 2020.

As of September 30, 2020, the Group has not mortgaged the land to secure any of its obligations.

MANAGEMENT

Directors and Executive Officers

Our board of directors is comprised of seven members, Jeffrey Wun, James J. Busuttil, Raymond Choy, Chih-Ming (Albert) Hsu, Richmond Akumiah, Colin Lim and Jan-Yung Lin. Our board of directors has determined that Messrs. Busuttil, Choy, Akumiah and Lim are independent directors as that term is defined in the rules of the Nasdaq Stock Market. Each of Messrs. Choy, Lim, Busuttil and Akumiah are members of all of our standing committees.

Our board of directors currently has four standing committees which perform various duties on behalf of and report to the board of directors: (i) Audit Committee, (ii) Compensation Committee, (iii) Nominating and Governance Committee and (iv) Regulatory, Compliance & Government Affairs Committee. Each of the four standing committees is comprised entirely of our independent directors. From time to time, the board of directors may establish other committees.

Our board of directors plays an active role, as a whole and also at the committee level, in overseeing management of our risks and strategic direction. Our board of directors regularly reviews information regarding our liquidity and operations, as well as the risks associated with each. Our Audit Committee oversees the process by which our senior management and relevant employees assess and manage our exposure to, and management of, financial risks. Our Compensation Committee is responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. Our Nominating and Governance Committee also manages risks associated with the independence of members of our board of directors and potential conflicts of interest. Our Regulatory, Compliance & Government Affairs Committee oversees regulatory, compliance and governmental matters that may impact the Company. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board of directors is regularly informed about such risks.

The following table contains certain information about each of our directors and executive officers as of the date hereof (unless indicated otherwise):

Name	Age	Position
James J. Busuttil	62	Chairman
Louis Giordimaina.....	63	Chief Executive Officer
Y. Tristan Kuo	65	Chief Financial Officer
Georges Caldironi.....	63	Chief Operating Officer
Jeffrey Wun	55	Director, President and Chief Technology Officer
Richmond Akumiah	66	Director
Raymond Choy.....	39	Director
Chih-Ming (Albert) Hsu.....	44	Director
Cheng Eam (Colin) Lim	57	Director
Jan-Yung Lin.....	60	Secretary and Director

James J. Busuttil. Dr. James Busuttil has served as a member of our Board since December 2017 and was appointed Chairman of our board of directors on March 22, 2020. Dr. Busuttil is an attorney admitted to practice before the courts of New York State since 1983, as well as numerous U.S. Federal Trial and Appeals Courts, practicing international, financial and corporate law. Dr. Busuttil was elected as a Life Fellow of the U.K.-based Institute of Directors (IoD). Members are invited to become Fellows of the IoD based on their substantial and sustained experience and contribution to business. Fellows are required to have been a company director for at least five years and, at some point during this period, the entity must have had an annual turnover or budget that exceeds £10 million. Dr. Busuttil has represented banks and financial institutions based in the United States and other countries in private sector financing of domestic and international projects, negotiated alternative energy project financings, handled transnational mergers and joint ventures, represented equity investors in venture capital transactions and organized investment funds. In addition, Dr. Busuttil represented the Bank Advisory Group for a major Latin American debtor nation in sovereign debt restructuring and handled a variety of private sector Latin American debt restructures. Dr. Busuttil was a Member of the Permanent Court of Arbitration (PCA) for twelve years, from 2007 to 2019. The PCA is the oldest international tribunal in the world established by the

1907 Convention for the Pacific Settlement of International Disputes. Membership of the PCA is strictly by nomination of contracting states of individuals of known competency in questions of international law, of the highest moral reputation, and disposed to accept the duties of Arbitrator. With respect to arbitration, Dr. Busuttil has been involved mainly in investment disputes. Dr. Busuttil created the University of London's Postgraduate Laws Program. Dr. Busuttil directed the University of London's Master of Laws (LL.M), Postgraduate Diploma in Laws (PG Dip. Laws) and the Postgraduate Certificate in Laws (PG Cert. Laws) from January 2004 to January 2015. Under Dr. Busuttil's leadership, the Program grew to over 3,000 persons from more than 150 countries. Dr. Busuttil was appointed as an Honorary Professor at the Faculty of Law of University College London (UCL) in 2004. Dr. Busuttil has been a member of the Pugwash Conference on Science and World Affairs, of the Council on Foreign Relations, and of the Executive Council of the American Society of International Law. In the course of work, Dr. Busuttil has developed experience and understanding in dealing with parties and organizations, including the private and public sectors, in South East Asia, East Asia, Europe, the Middle East, Russia, North Africa and Australasia.

Louis Giordimaina. Mr. Giordimaina was appointed as our Chief Executive Officer by our board of directors on March 22, 2020. Prior to that, Mr. Giordimaina served as Chief Operating Officer-Aviation of Aircom from May 25, 2018 until November 1, 2019, and of Aerokomm Malta from November 1, 2019 until March 22, 2020, the date of his being appointed as our Chief Executive Officer by the Board. Mr. Giordimaina joined Aircom as a consultant in June 2017. Mr. Giordimaina is an experienced aviation executive with more than 40 years of experience in airline executive management, operations, Maintenance and Repair Organizations (MROs), aircraft purchasing from aircraft manufacturers, sales and leasing with major aircraft lessors. Prior to joining the Company, Mr. Giordimaina served as Chief Executive Officer of Air Malta in 2014, the national airline of Malta, as well as CEO of Lufthansa Technik Malta from 2002 to 2011. He joined Air Malta's engineering department in 1975 as an aircraft engineer where he occupied various positions in Air Malta's engineering department with additional active roles in Air Malta relating to airline strategic planning, aircraft purchasing and deliveries from Airbus Industrie, Boeing and British Aerospace, aircraft leasing from various international aircraft lessors and aircraft contract negotiations. In 1994, he was appointed as the first Maltese Chief Engineer of Air Malta. Mr. Giordimaina was instrumental in setting up Lufthansa Technik Malta, a Joint Venture between Lufthansa Technik and Air Malta, of which he was appointed Chief Executive Officer and Director in 2002. In 2006, he spearheaded Lufthansa Technik Malta's expansion to become one of the major worldwide MRO players, based in the centre of the Mediterranean. He occupied the position of CEO until September 2011, after which he remained as member of the board of directors of that company until September 2013. He currently serves as a Director of the SUM Aviation Group, which provides aircraft line maintenance to various airlines. He also served as the General Manager, the Accountable Manager and a director of Hyperion Aviation, where he worked from May 2016 to September 2017, managing a fleet of private jet aircraft; he served in similar capacities at EuroJet Ltd., from January 2015 to April 2016; and he served for a number of years as a director of Tailwind Leasing Company and Peregrine Aviation Leasing Company based in Shannon, Ireland. An aircraft engineer by profession, Mr. Giordimaina also obtained an Engineering Business Management degree from Warwick University, UK. He is a Fellow of the Royal Aeronautical Society.

Y. Tristan Kuo. Mr. Kuo has served as our Chief Financial Officer and Treasurer since April 10, 2017. Mr. Kuo has served as Chief Financial Officer and Treasurer of Aircom since May 2017. Mr. Kuo has more than 30 years of experience in accounting, financing and information systems for companies in the bio-pharmaceutical, manufacturing, commodity trading and banking industries and has served in the capacities of CFO, CIO and Controller. Mr. Kuo has served as the Vice President of Investor Relations of Nutrastar International, Inc. (OTCPK: NUIN) between April 2016 and February 2020. Mr. Kuo also served as the Chief Financial Officer of Success Holding Group International, Inc., a provider of personal improvement seminars, from August 2015 to April 2017. Prior to that, he served as CFO/CIO Partner of Tatum, a management and advisory services firm, from December 2014 to August 2015, as an independent board member and audit committee chairman of KBS Fashion Group Limited (NASDAQ: KBSF) from August 2014 to May 2015, and as the Chief Financial Officer of Crown Bioscience, Inc. from June 2012 to November 2013. Prior to that, Mr. Kuo served as Chief Financial Officer of China Biologic Products, Inc. (NASDAQ: CBPO), a Chinese biopharmaceutical company, from June 2008 to May 2012 and served as its Vice President of Finance between September 2007 and May 2008. Prior to that, Mr. Kuo worked for the Noble Group in Hong Kong as the Senior Business Analysis Manager from February through August 2007 and as the Controller, Vice President of Finance and CFO of Cuisine Solution, Inc., a previously publicly traded company in Alexandria, Virginia, from December 2002 to January 2007. Mr. Kuo also served as the Vice President of Information Systems for Zinc Corporation of America in Monaca, Pennsylvania from 2001 and 2002 and as Chief Information Officer and Controller of Wise Metals Group in Baltimore, Maryland, from 1991 to 2001. Mr. Kuo received his Master's degree in Accounting from The Ohio State University and Bachelor's degree in Economics from Soochow University, Taipei.

Georges Caldironi. Mr. Caldironi was appointed as our Chief Operating Officer by our board of directors on March 22, 2020. Prior to that, Mr. Caldironi served as a Project Director for Aircom beginning on January 1, 2019, on an independent contractor basis. Mr. Caldironi is an aviation professional with 40 years of experience in aircraft modification, avionics communication and in-flight entertainment systems. Prior to joining Aircom, Mr. Caldironi was employed by Airbus for 25 years, most recently as Technical & Support Director in Airbus' Business and Government Division. During his career at Airbus, Mr. Caldironi managed and supervised various complex projects including, but not limited to, aircraft upgrades. He is a specialist in system and cabin innovation (connectivity & IFE), having carried out numerous feasibility studies and associated design projects for numerous airlines and leasing companies. During his career, Mr. Caldironi has prioritized ensuring cost efficiency and on time delivery in the successful completion of aviation projects. Mr. Caldironi received a diplôme d'études supérieures techniques (DEST) in engineering from Conservatoire national des arts et métiers (CNAM) of Bordeaux in 1986.

Jeffrey Wun. Mr. Wun has served as our President since December 31, 2017 and was appointed as our Chief Technology Officer by our board of directors on March 22, 2020. He served as our Chief Executive Officer from December 31, 2017 to March 22, 2020. Mr. Wun has been a member of our board of directors since the closing of the reverse acquisition of Aircom on February 13, 2017 and served as our Chairman of the board of directors from January 22, 2018 to March 22, 2020. Mr. Wun previously served as our President, Treasurer and Secretary from December 2016 to February 2017. Mr. Wun has served as Aircom's Chief Technology Officer since December 2014. Mr. Wun is a technologist with more than 25 years of experience in the communications industry. Prior to joining Aircom Mr. Wun served as Senior Staff Engineer at Samsung Electronics Co., Ltd. from December 2012 to May 2015. Prior to that, Mr. Wun was a Senior System Engineer at MediaTEK USA Inc. from November 2010 to December 2012 and served as Chief Executive Officer at Kairos System Inc. from 2003 to 2010. Mr. Wun received a Bachelor of Science in Biochemistry and Computer Science from Chinese University of Hong Kong in 1988.

Raymond Choy. Mr. Raymond Choy has served as a member of our Board since December 2017. Mr. Choy has served as a member of from the Board of Aircom since October 2017. Mr. Choy became a certified public accountant (CPA) in the state of California in 2006 and also received his chartered global management accountant (CGMA) designation in 2013. Mr. Choy has provided accounting, consulting and advisory services to public and private companies since July 2016 through his partnership with Beyond Century Consulting, LLC, a financial and business consulting company. Mr. Choy has extensive experience auditing the financial statements and internal controls of public and private companies as a senior manager at Frazer, LLP, a certified public accountant company, from July 2004 to June 2016. Mr. Choy received his bachelor's degree with in business administration with accounting concentration and minor in computer information systems from California State Polytechnic University, Pomona, in 2003. Mr. Choy was selected to serve as a member of our board of directors due to his accounting background.

Chih-Ming (Albert) Hsu. Mr. Chih-Ming (Albert) Hsu has served as a member of our Board since December 2017. Mr. Hsu has served as a member of Aircom's board since April 2017. Mr. Hsu was admitted to practice law in Taiwan as a corporate and business lawyer and as a patent attorney in 2002. Mr. Hsu is the owner of Chascord Law Firm. Mr. Hsu previously served as the arbitrator & mediator of the Chinese Arbitration Association, Taipei. Mr. Hsu has also been the chairman of the board of directors of Yuanjiu Inc., a Taiwanese publicly traded company since May 2019. In addition, Mr. Hsu was the Chairman of Unitel High Technology Corporation, a listed company on the Taiwan over-the-counter market from December 2015 to September 2016. Mr. Hsu received an LL.M. and Bachelor of Law degree from National Taiwan University in 2003 and 1997, respectively. Mr. Hsu is an expert of real estate securitization in Taiwan.

Richmond Akumiah. Mr. Akumiah has served as a member of our board of directors since September 2018. Mr. Akumiah is an engineering and financial management professional with years of experience in decision support, budgeting, forecasting, credit analysis, cost accounting, mergers and acquisitions, quantitative analysis, financial and operational analysis, strategic planning and corporate development. Since September 2018, he has been employed as a Senior Advisor, Investments and Operations by the State of New Jersey, Division of Investment, where he advises on the Division's range of investment activities, and is on the Board of the New Jersey Culture Trust, as representative of the New Jersey State Treasurer. From 2014 to 2018, Mr. Akumiah was a research consultant for WorldQuant LLC, a Greenwich, Connecticut based investment management firm. Prior to that, from 2009 to 2013, he was employed as a consultant for Wolters Kluwer. Prior to Wolters Kluwer, Mr. Akumiah was employed in a number of positions in various financial management capacities, including at The Dun & Bradstreet Corporation where he spent a decade in leadership roles in Finance & General Management. At AT&T, he served as Director of Finance in the Business Case Center of Excellence managing the AT&T's

investments in IP (Internet Protocol) and Managed Services. Mr. Akumiah also served as Chief Financial Officer of Hands On Network (Points of Light). Mr. Akumiah began his career in New York City in 1982 with Marine Midland Bank (HSBC). Mr. Akumiah is a member of the American Society of Mechanical Engineers and American Society of Civil Engineers. Mr. Akumiah graduated from Harvard University, in 1980 with a BA in Engineering and received his MBA in Finance in 1982 from New York University, Leonard Stern School of Business. Mr. Akumiah was selected to serve as a member of our board of directors due to his engineering and finance background.

Cheng Eam (Colin) Lim. Mr. Colin Lim has served as a member of our board of directors since the closing of the reverse acquisition of Aircom on February 13, 2017 and served as a member of Aircom's board from July 2015 to February 2017. In 2013, Mr. Lim founded Dynasty Media & Entertainment Group, a movie production and distribution company and an investment company with interests in a variety of businesses, including restaurants, wood and timber traders, exotic leather manufacturers, movie producers, copyrights transaction companies, and entertainment businesses, as well as hi-tech companies, and is the Managing Director who oversees financing, investment, copyrights. Mr. Lim has served as Executive Chairman of Sunny Leather from June 2006 and is responsible for general management. Mr. Lim has served as Executive Chairman of Anson International since March 2003 where he oversees investments. Mr. Lim has served as Managing Director of Euroamerica International since December 1999 where he oversees management and trading operations of the company. Mr. Lim's investment experience in the movie and copyright businesses has allowed us to better negotiate and acquire sufficient movie copyrights and entertainment content to complement our business model. Mr. Lim graduated from New South Wales University in Australia, where he received his degree in engineering and business.

Jan-Yung Lin. Mr. Jan-Yung Lin has served as a member of our board of directors since the closing of the reverse acquisition of Aircom on February 13, 2017. Mr. Lin served as Aircom's President from June 2017 to February 2019, as Aircom's Chief Executive Officer from February 2015 to October 2016, as Aircom's Chief Operating Officer from September 2014 to February 2015, and as a director of Aircom since September 2014. Mr. Lin has practiced corporate and business law at Concorde Law PC as a solo practitioner since 2012. Prior to that Mr. Lin was the General Counsel and Chief Financial Officer of EMG Properties, Inc. in California. Prior to that Mr. Lin was a corporate associate of Goodwin Proctor LLP. Mr. Lin graduated magna cum laude from Cornell Law School with a J.D. degree and an LL.M. degree in International and Comparative Law. Mr. Lin received an M.B.A. degree from the University of California, Berkeley and a Bachelor's degree from the National Taiwan University. Mr. Lin was selected to serve as a member of our board of directors due to his legal background.

Directors and executive officers are elected until their successors are duly elected and qualified.

There are no arrangements or understandings known to us pursuant to which any director was or is to be selected as a director (or director nominee) or executive officer.

There are no family relationships among any of our officers or directors.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);
- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;

- been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Audit Committee

Our Audit Committee currently consists of Messrs. Busuttil, Choy, Akumiah and Lim, with Mr. Choy serving as chairman. Our board of directors has determined that Mr. Choy is an audit committee financial expert, as defined in Item 407(d)(5) of Regulation S-K, and each member of our Audit Committee is able to read and understand fundamental financial statements and has substantial business experience that results in such member's financial sophistication.

Accordingly, our board of directors believes that each member of our Audit Committee has sufficient knowledge and experience necessary to fulfill such member's duties and obligations on our Audit Committee. The primary purposes of our Audit Committee are to assist our board of directors in fulfilling its responsibility to oversee the accounting and financial reporting processes of our company and audits of our financial statements, including (i) reviewing the scope of the audit and all non-audit services to be performed by our independent accountant and the fees incurred by us in connection therewith, (ii) reviewing the results of such audit, including the independent accountant's opinion and letter of comment to management and management's response thereto, (iii) reviewing with our independent accountants our internal accounting principles, policies and practices and financial reporting, (iv) engaging our independent accountants and (v) reviewing our quarterly and annual financial statements prior to public issuance. The role and responsibilities of our Audit Committee are more fully set forth in a written Charter adopted by our board of directors on June 6, 2017, which is available on our website at www.aerkomm.com.

Compensation Committee

Our board of directors established our Compensation Committee effective as of January 22, 2018, appointing Messrs. Busuttil, Choy and Lim as members, with Mr. Lim serving as chairman of this committee. On February 16, 2020, our board of directors voted to add Mr. Akumiah to this committee. The Compensation Committee is structured as follows: The primary purpose of our Compensation Committee is to assist our board of directors in fulfilling its responsibility to determine the compensation of our executive officers and to approve and evaluate the compensation policies and programs of our company, including (i) reviewing the compensation packages of executive officers and making recommendations to our board of directors for said compensation packages, (ii) reviewing and approving proposed stock incentive grants and (iii) providing our board of directors with recommendations regarding bonus plans, if any. The role and responsibilities of our Compensation Committee are more fully set forth in a written Charter adopted by our board of directors and made available on our website at www.aerkomm.com.

The policies underlying our Compensation Committee's compensation decisions are designed to attract and retain the best-qualified management personnel available. We routinely compensate our executive officers through salaries. At our discretion, we may reward executive officers and employees through bonus programs based on profitability and other objectively measurable performance factors. Additionally, we use stock options and other incentive awards to compensate our executives and other key employees to align the interests of our executive officers with the interests of our stockholders. In establishing executive compensation, our

Compensation Committee will evaluate compensation paid to similar officers employed at other companies of similar size in the same industry and the individual performance of each officer as it impacts our overall performance with particular focus on an individual's contribution to the realization of operating profits and the achievement of strategic business goals. Our Compensation Committee will further attempt to rationalize a particular executive's compensation with that of other executive officers of our company in an effort to distribute compensation fairly among the executive officers. Although the components of executive compensation (salary, bonus and incentive grants) will be reviewed separately, compensation decisions will be made based on a review of total compensation.

Nominating and Governance Committee

Our board of directors established our Nominating and Governance Committee effective January 22, 2018, appointing Messrs. Busuttil, Choy and Lim as members, with Mr. Busuttil serving as chairman of this committee. On February 16, 2020, our board of directors voted to add Mr. Akumiah to this committee. The Nominating and Governance Committee is structured as follows: The primary purposes of our Nominating and Governance Committee are to (i) identify individuals qualified to become members of our board of directors and recommend to our board of directors the nominees for the next annual meeting of our stockholders and candidates to fill vacancies on our board of directors, (ii) recommend to our board of directors the directors to be appointed to committees of our board of directors and (iii) oversee the effectiveness of our corporate governance in accordance with regulatory guidelines and any other guidelines we establish, including evaluations of members of executive management, our board of directors and its committees. The role and responsibilities of our Nominating and Governance Committee are more fully set forth in a written Charter adopted by our board of directors and made available on our website at www.aerkomm.com.

Our Nominating and Governance Committee's methods for identifying candidates for election to our board of directors (other than those proposed by our stockholders, as discussed below) includes the solicitation of ideas for possible candidates from a number of sources - members of our board of directors, our executives, individuals personally known to the members of our board of directors, and other research. Our Nominating and Governance Committee may also, from time-to-time, retain one or more third-party search firms to identify suitable candidates.

A stockholder of our company may nominate one or more persons for election as a director at an annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in our Bylaws. In addition, the notice must be made in writing and set forth as to each proposed nominee who is not an incumbent Director (i) their name, age, business address and, if known, residence address, (ii) their principal occupation or employment, (iii) the number of shares of stock of our company beneficially owned, (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person pursuant to which the nominations are to be made and (v) any other information concerning the nominee that must be disclosed respecting nominees in proxy solicitations pursuant to Rule 14(a) of the Exchange Act. The recommendation should be addressed to our Secretary.

Among other matters, our governance and nominating committee will:

- Review the desired experience, mix of skills and other qualities to assure appropriate board composition, taking into account the current members of our board of directors and the specific needs of our company and our board of directors;
- Conduct candidate searches, interviews prospective candidates and conducts programs to introduce candidates to our management and operations, and confirms the appropriate level of interest of such candidates;
- Recommend qualified candidates who bring the background, knowledge, experience, independence, skill sets and expertise that would strengthen and increase the diversity of our board of directors; and
- Conduct appropriate inquiries into the background and qualifications of potential nominees.

Regulatory, Compliance & Government Affairs Committee

Our regulatory, compliance & government affairs committee currently consists of Messrs. Busuttil, Choy, Lim and Akumiah, with Mr. Akumiah serving as chairman. Mr. Lim joined this committee on February 16, 2020. The primary purposes of our regulatory, compliance & government affairs committee are to assist our board of directors by providing oversight of regulatory, compliance and governmental matters that may impact the Company, which including (i) overseeing our major compliance programs with respect to legal and regulatory requirements, except with respect to matters of financial compliance, (ii) overseeing compliance with any ongoing Corporate Integrity Agreements or similar undertakings by us with the U.S. Department of Justice, U.S. Securities and Exchange Commission, or any other government agency, (iii) reviewing with our Chief Compliance Officer the organization, implementation and effectiveness of our compliance programs and the adequacy of the resources for those programs, (iv) reviewing with our Chief Executive Officer the organization, implementation and effectiveness of our quality and compliance programs and the adequacy of the resources for those programs and (v) overseeing our exposure to risks relating to regulatory compliance matters. The role and responsibilities of our regulatory, compliance & government affairs committee are more fully set forth in a written charter adopted by our board of directors on September 25, 2018, which is available on our website at www.aerkomm.com.

Executive Compensation

The aggregate remuneration paid and benefits in kind granted by us or any of our subsidiaries to our directors and executive officers in these capacities as a group for 2017 was US\$5.6 million, for 2018 was US\$1.4 million and for 2019 was US\$1.9 million. There are no outstanding loans granted by us or any of our subsidiaries to any of our directors or executive officers, and there are no outstanding guarantees provided by us or any of our subsidiaries for the benefit of any of our directors or executive officers.

THE BANK GUARANTEE

Bank of Panhsin Co., Ltd. (the “BG Bank”) has committed to issue a bank guarantee dated December 2, 2020 (the “Bank Guarantee”) to the Trustee for the benefit of the holders of the Credit Enhanced Bonds pursuant to a Counter Indemnity Agreement between the Issuer and the BG Bank of dated November 26, 2020.

The Bank Guarantee authorizes the Trustee to draw on the Bank Guarantee, on demand, an amount (the “Stated Amount”) equals to the total principal amount, the premium, interest (if any) and any other payment obligations of the Company which shall include the default interest with respect to the Credit Enhanced Bonds. The Bank Guarantee will be issued on or prior to the Closing Date in favor of the Trustee for the benefit of the holders of the Credit Enhanced Bonds. The Bank Guarantee is intended to provide a source of funds for the principal, premium, interest (if any) and any other payment obligations of the Company which shall include the default interest under the Credit Enhanced Bonds upon the Company's failure to pay amounts pursuant to the Credit Enhanced CB Indenture or upon the Credit Enhanced Bonds being declared due and payable on the occurrence of an Event of Default pursuant to the terms and conditions of the Credit Enhanced Bonds. Accordingly, the Trustee, as beneficiary of the Bank Guarantee, will not be acting as an agent of the Company but will act on behalf of the holders of Credit Enhanced Bonds.

The Stated Amount of the Bank Guarantee, which is US\$10,700,000, is the aggregate principal amount of the Credit Enhanced Bonds at the time of issue, plus the premium, interest (if any) and/or any other payment obligations of the Company (which shall include the default interest with respect to the Credit Enhanced Bonds), subject to reduction as provided in the Bank Guarantee. The amount available for drawing under Bank Guarantee shall be reduced by the principal amount of the Credit Enhanced Bonds that were redeemed, repurchased and cancelled, or converted pursuant to the Credit Enhanced CB Indenture.

The Bank Guarantee will expire at the close of business on the earliest to occur of (i) the Maturity Date of the Credit Enhanced Bonds, (ii) the date on which the Stated Amount of the Bank Guarantee is reduced to zero (the “Expiry Date”).

Under the terms and subject to the conditions set forth in the Bank Guarantee, the amount under the Bank Guarantee is drawable by the Trustee on behalf of the holders of Credit Enhanced Bonds upon presentation by the Trustee of a demand for payment substantially in the form set forth in the Bank Guarantee to demand for payment. The Credit Enhanced CB Indenture provides that, each drawing shall be made by the Trustee against the BG Bank. If (a) the Company has failed to pay the principal, premium, interest (if any) and/or any other payment obligations of the Company (which shall include the default interest of the Credit Enhanced Bonds) (i) after the declaration by the Trustee that the Credit Enhanced Bonds are due and payable immediately pursuant to Section 6.1 of the Credit Enhanced CB Indenture following an Event of Default (other than any of the events specified in paragraphs 4, 6 and 8 of Section 6.1 of the Credit Enhanced CB Indenture), (ii) on or before one Business Day prior to the due date of any amount on the Bonds payable under this Indenture, or (iii) on or before Maturity Pre-Funding Payment Day of any payments to be made on the Maturity Date of the Credit Enhanced Bonds, or (b) the Credit Enhanced Bonds become immediately due and payable at their principal amount upon the occurrence of any of the events specified in paragraphs 4, 6 and 8 of Section 6.1 of the Credit Enhanced CB Indenture, as applicable, the Trustee shall, subject to Section 7.2(f) and Section 7.2(v) of the Credit Enhanced CB Indenture, as soon as practicable thereafter and in case of the above (a)(ii), on or before the relevant redemption date or the relevant put date, but in any event no later than the Expiry Date of the Bank Guarantee, draw on the Bank Guarantee in accordance with the Credit Enhanced CB Indenture and the Bank Guarantee, provided that in the case of the above (a)(iii), the Trustee shall, subject to Section 7.2(f) and Section 7.2(v) of the Credit Enhanced CB Indenture, within two Business Days following the receipt of the notice from the Pre-funding Account Bank that the payment to be made on the Maturity Date has not been paid in full to the Pre-funding Account by the Issuer on the Maturity Pre-Funding Payment Day, but in any event no later than the Expiry Date, draw on the Bank Guarantee in accordance with Credit Enhanced CB Indenture and the Bank Guarantee. For purpose of this paragraph, “Maturity Pre-Funding Payment Day” shall mean November 2, 2025, being a date which falls on the thirtieth calendar day prior to the Maturity Date for pre-funding of the full payment payable by the Company on the Maturity Date of the Credit Enhanced Bonds; “Pre-funding Account Bank” means Citibank, N.A., Hong Kong Branch or its replacement; “Pre-funding Account” means a U.S. dollar non-interest bearing account (account no. 1031337018, account title: CITI AT AB – AERKOMM PREFUND) established in the name of the Issuer with the Pre-funding Account Bank for the Issuer to pre-fund the payments to be made on the Maturity Date of the Credit Enhanced Bonds.

The Bank Guarantee is transferable, in whole but not in part, any number of times to another beneficiary, but only in the full Stated Amount available at the time of transfer, and the transfer may only be made to the person or entity appointed as a successor trustee under the Credit Enhanced CB Indenture. Transfer of the Bank Guarantee to such transferee shall be effected only by the presentation to the BG Bank of the original Bank Guarantee accompanied by a written transfer demand to the BG Bank substantially in the form set forth in the Bank Guarantee.

Each drawing, to be made by the Trustee's presentation of a Demand for Payment (as defined in the Bank Guarantee) in full compliance with the terms and conditions of the Bank Guarantee on a ROC Business Day (as defined below), will be honored by payment in immediately available funds to the account designated by the Trustee in the relevant Demand for Payment, by transfer of funds to such account within five ROC Business Day. "ROC Business Day" for this purpose shall mean any day on which banking institutions in Taipei are open for business. The Trustee shall make payment of moneys received in respect of payment or drawing under the Bank Guarantee in accordance with Section 6.11 of the Credit Enhanced CB Indenture.

Each holder of the Credit Enhanced Bonds by acceptance of the Credit Enhanced CB Indenture or by the holding of the Credit Enhanced Bonds shall be deemed to have agreed to fully indemnify the Trustee against any and all expenses ("Expenses") properly incurred by the Trustee and its agents on drawing on the Bank Guarantee. Each holder of the Credit Enhanced Bonds, by its acceptance of the Credit Enhanced CB Indenture or by the holding of Credit Enhanced Bonds, shall further be deemed to have agreed that the Trustee shall be entitled to the deduction of such amount of the Expenses from the Amounts Collected (as defined in the Credit Enhanced CB Indenture), and that the Trustee shall only pay the balance of the Amounts Collected less the Expenses to the holder of the Credit Enhanced Bonds.

Except as expressly provided therein, the Bank Guarantee shall be subject to the Uniform Rules for Demand Guarantees (URDG) 2010 revision, ICC Publication No. 758, as applicable; and governed by the laws of the ROC.

Any failure by the Trustee or a successor trustee to draw on the Bank Guarantee with respect to partial redemption of the Credit Enhanced Bonds, if any, shall not cause any of the Bank Guarantee to be unavailable for any future drawing, provided that any such future drawing may not be made after the Expiry Date.

In relation to any legal action or proceedings arising out of or in connection with the Bank Guarantee ("proceedings"), the BG Bank has irrevocably submitted to the non-exclusive jurisdiction of the courts of Taiwan and have agreed that the proceedings may be brought in any such court and have waived to the fullest extent permitted by applicable law any objection to proceedings in any such court on the grounds of venue or on the grounds that the proceedings have been brought in an inconvenient forum.

DESCRIPTION OF BG BANK

The information presented in this section is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. Any information available from public sources that are referenced in this Offering Memorandum but is not separately included in this Offering Memorandum shall not be deemed to be incorporated by reference to this Offering Memorandum. We have taken reasonable care in the compilation and reproduction of the information. However, none of us, the Lead Manager, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them has independently verified such information. No representation or warranty, express or implied, is made or given by us, the Lead Manager, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon.

The bank guarantee in respect of Credit Enhanced Zero Coupon Convertible Bonds due 2025 will be issued by Bank of Panhsin Co., Ltd. (“Bank of Panhsin” or the “BG Bank”). The bank guarantee will be issued to the Trustee for the benefit of the holders of the Credit Enhanced Bonds pursuant to a Counter Indemnity Agreement between the Issuer and the BG Bank of dated November 26, 2020.

The following are descriptions and selected financial information of Bank of Panhsin.

Overview

Bank of Panhsin, formerly known as Panchiao Credit Cooperatives, or the PCC, has always upheld a customer-centric integrity management since its establishment on April 25, 1957, achieving steady business expansion. Thereafter, in response to a rapidly liberalized financial environment and in compliance with the Standards and Methods for Reorganization of Credit Cooperative into Commercial Bank announced by Taiwan authority on December 6, 1995, PCC had acquired the Kaohsiung Fifth Credit Cooperative on September 29, 1997, and officially transformed into a commercial bank on the following day. The business premise has thus surpassed the boundary of New Taipei City. Subsequently, Bank of Panhsin has made several adjustments and established branch offices according to business development needs. In support of government policies, Bank of Panhsin had acquired the Chiayi First Credit Cooperative on March 7, 2005, opening 46 branches in total. On July 21, 2014, Bank of Panhsin officially acquired the Taipei City Ninth Credit Cooperative, obtaining a total of 64 branches after the merge.

By the end of 2019, Bank of Panhsin has 74 domestic branches, NT\$219.9 billion in consolidated deposits, and NT\$252 billion in total assets.

Services currently offered by the Bank of Panhsin include all commercial banking operations allowed by the Banking Act of Taiwan, savings operations, trust operations, credit card operations, trading in government bonds and other debt securities, insurance agent and other operations as authorized by the relevant authorities.

Pursuant to the audited financial statements (parent company only) for the year ended December 31, 2019, the Bank of Panhsin had a net income before income tax of NT\$3.8 billion, an increase of NT\$ 256 million over the previous year. The earnings per share was NT\$0.62. The return on assets (ROA) and the return on equity (ROE) were 0.35% and 5.60% respectively. At the end of 2019, the overdue loans ratio was 0.32% and the coverage ratio of loan loss provision 371.74%.

The Bank of Panhsin is headquartered at No.68, Sec.2, Xianmin Blvd., Banqiao Dist., New Taipei City, Taiwan (R.O.C.).

Financial Information

Bank of Panhsin’s audited financial statements (parent company only) as of and for the years ended December 31, 2018 and 2019 extracted from its 2019 annual report are included herein beginning on page F-76. A complete copy of its 2019 annual report can be downloaded free of charge from the website of Bank of Panhsin at <https://www.bop.com.tw/bopmesg/AnnualReport.html>

No representation is made by us, the Lead Manager, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any of their respective affiliates, directors, officers, employees,

representatives, agents or advisers and none of us, the Lead Manager, the Trustee, the Principal Paying Agent, the Transfer Agent, the Conversion Agent or the Registrar or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers takes any responsibility for any information contained on the website of Bank of Panhsin.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of Common Stock as of November 9, 2020 (i) by each person who is known by us to beneficially own more than 5% of Common Stock; (ii) by each of our officers and directors; and (iii) by all of our officers and directors as a group.

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Class ⁽²⁾ (%)
James Busuttil, Chairman ⁽³⁾	Common Stock	18,000	*
Louis Giordimaina, Chief Executive Officer ⁽⁴⁾	Common Stock	42,500	*
Y. Tristan Kuo, CFO ⁽⁵⁾	Common Stock	150,000	1.57
Georges Caldironi, Chief Operating Officer ⁽⁶⁾	Common Stock	2,000	*
Jeffrey Wun, President, Director and Chief Technology Officer ⁽⁷⁾	Common Stock	2,692,414	28.22
Richmond Akumiah, Director ⁽⁸⁾	Common Stock	11,488	*
Raymond Choy, Director ⁽⁹⁾	Common Stock	18,000	*
Chih-Ming (Albert) Hsu, Director ⁽¹⁰⁾	Common Stock	323,119	3.39
Cheng Eam (Colin) Lim, Director ⁽¹¹⁾	Common Stock	104,580	1.10
Jan-Yung Lin, Secretary and Director ⁽¹²⁾	Common Stock	469,903	4.93
All officers and directors as a group (10 persons named above)	Common Stock	3,832,004	40.16
Dmedia Holding LP ⁽¹³⁾	Common Stock	2,237,428	23.45
Sheng-Chun Chang ⁽¹⁴⁾	Common Stock	1,085,281	11.38

* Less than 1%

- (1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership within 60 days. Each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to the shares of our Common Stock.
- (2) A total of 9,540,891 shares of Common Stock are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1) as of November 9, 2020. For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.
- (3) Consists of 18,000 shares of Common Stock which Mr. Busuttil has the right to acquire within 60 days through the exercise of vested options but does not include 2,000 shares of our Common Stock issuable upon the exercise of options not exercisable within 60 days.
- (4) Consists of 42,500 shares of Common Stock which Mr. Giordimaina has the right to acquire within 60 days through the exercise of vested options but does not include 17,500 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days.
- (5) Consists of 150,000 shares of Common Stock which Mr. Kuo has the right to acquire within 60 days through the exercise of vested options but does not include 30,000 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days.
- (6) Consists of 2,000 shares of Common Stock which AA TWIN ASSOCIATES LTD has the right to acquire within 60 days through the exercise of vested options. Mr. Caldironi is the principal of AA TWIN ASSOCIATES LTD and has voting and dispositive control of the securities held by AA TWIN ASSOCIATES LTD.
- (7) Includes (i) 447,486 shares of Common Stock held directly; (ii) 7,500 shares of Common Stock which Mr. Wun has the right to acquire within 60 days through the exercise of vested options (but does not include 1,500 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days); and (iii) 2,237,428 shares of Common Stock owned by Dmedia Holding LP. On December 20, 2017, Mr. Wun purchased an 85.7% interest in, and was appointed Manager of, Dmedia LLC, the General Partner of Dmedia Holding LP. As such, Mr. Wun is deemed to be the beneficial owner of the 2,237,428 shares of Common Stock held by Dmedia Holding LP by virtue of his voting and dispositive power of those shares. Through his ownership interest in Dmedia LLC, which owns an approximately 6% direct interest in Dmedia Holding LP, Mr. Wun indirectly beneficially owns 117,601 shares of Common Stock held by Dmedia Holding LP. Mr. Wun disclaims beneficial ownership of the remaining 2,119,827 shares of Common Stock held by Dmedia Holding LP.
- (8) Consists of 11,488 shares of Common Stock which Mr. Akumiah has the right to acquire within 60 days through the exercise of vested options but does not include 4,512 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days.
- (9) Consists of 18,000 shares of Common Stock which Mr. Choy has the right to acquire within 60 days through the exercise of vested options but does not include 2,000 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days.
- (10) Represents (i) 3,312 shares of our Common Stock held directly by Mr. Hsu; (ii) 6,000 shares of our Common Stock which Mr. Hsu has the right to acquire within 60 days through the exercise of vested options but does not include 2,000 shares of our Common Stock issuable upon the exercise of options not exercisable within 60 days; and (iii) 313,807 shares of our Common Stock owned by Yuanjiu, Inc. Mr. Hsu is the chairman of Yuanjiu, Inc. and, as such, he is the deemed beneficial owner of the 313,807 shares of our Common Stock. However, Mr. Hsu disclaims beneficial ownership of the shares of our Common Stock owned by Yuanjiu, Inc.
- (11) Consists of 104,580 shares of Common Stock which Mr. Lim has the right to acquire within 60 days through the exercise of vested options but does not include 2,000 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days.
- (12) Includes 462,403 shares of Common Stock owned by Mr. Lin directly and 7,500 shares of Common Stock which Mr. Lin has the right to acquire within 60 days through the exercise of vested options (but does not include 1,500 shares of Common Stock issuable upon the exercise of options not exercisable within 60 days). Does not include 959,230 shares of Common Stock owned by Mr. Lin through

his approximately 7% ownership interest in Dmedia LLC and his approximately 42.4% interest Dmedia Holding LP, as Mr. Lin does not, directly or indirectly, have voting or dispositive power over these shares although he does own a pecuniary interest in them.

- (13) Mr. Wun has sole voting and dispositive power over these shares of our Common Stock although he disclaims beneficial ownership of 2,237,428 of these shares. Mr. Lin owns a pecuniary interest in 959,230 of these shares although he does not exercise voting or dispositive control over them.
- (14) Consists of 1,020,000 shares of Common Stock held by Well Thrive Limited and 65,281 shares of Common Stock owned directly by Mr. Sheng-Chun Chang. Mr. Chang is the Chief Executive Officer and owner of Well Thrive Limited and has voting and dispositive power of the securities held by it. Mr. Chang disclaims beneficial ownership of the shares held by Well Thrive Limited.

RELATED-PARTY TRANSACTIONS

The following includes a summary of transactions since the beginning of the 2017 fiscal year, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest (other than compensation described under “Executive Compensation” above). We have also included below transactions in which Daniel Shih, a co-founder of ours, has received value. We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

- On March 31, 2017, we entered into a settlement and release agreement with Aircom and dMobile System Co. Ltd., or dMobile, a Taiwanese limited company whose Chairman of the Board is Daniel Shih, our co-founder, a former material beneficial owner of our Common Stock and husband of our former director Barbie Shih. Aircom and dMobile entered into a certain Purchase Agreement for Ground Station Equipment, dated as of October 15, 2014, or the Purchase Agreement, pursuant to which Aircom delivered to dMobile certain equipment with an aggregate invoice price of \$5,478,900 and received from dMobile \$2,000,000 in partial payment, as a result of which dMobile owed Aircom a balance of \$3,478,900 under the Purchase Agreement. Aircom and dMobile also entered into a certain Statement of Work, dated January 15, 2015, or the Statement of Work, pursuant to which dMobile delivered to Aircom certain intangible property with an aggregate invoice price of \$4,950,000 and received from Aircom \$1,000,000 in partial payment, as a result of which Aircom owed dMobile \$3,950,000 under the Statement of Work. Offsetting the amounts Aircom and dMobile owed to each other under the Purchase Agreement and the Statement of Work, Aircom owed dMobile a net amount of \$471,100, or the Outstanding Amount. To settle this amount, Aircom and dMobile entered into the settlement and release agreement with respect to these matters pursuant to which (i) the Purchase Order and the Statement of Work were terminated and dMobile agreed to accept, and we agreed to issue to dMobile, 94,220 shares of our Common Stock valued at \$5.00 per share in full settlement of the Outstanding Amount, or the dMobile Settlement Shares and (ii) Aircom and dMobile each agreed to waive, release, discharge and covenant not to sue each other with respect to any and all possible claims arising out of or relating to the Purchase Order, the Statement of Work, and the Outstanding Amount. Because Daniel Shih owns dMobile, he is the beneficial owner of the dMobile Settlement Shares.
- On March 31, 2017, we entered into a settlement and release agreement with Aircom and Priceplay.com, Inc, or PPUS, a Delaware corporation of which Daniel Shih, our co-founder, is the Chairman of the board of directors. Aircom and PPUS entered into a certain Development Agreement, dated February 10, 2015, as amended by the First Amendment to Development Agreement, dated July 17, 2015 and the Second Amendment to Development Agreement, dated August 18, 2015, or, as amended, the Development Agreement, pursuant to which Aircom and PPUS agreed to jointly develop certain AirCinema airplane seating technology and related products. Aircom and PPUS fully performed the specified terms of the Development Agreement with the exception that a deposit of \$387,500 was advanced by PPUS to Aircom, or the Deposit, for which Aircom and PPUS did not reach agreement as to the scope of work to be covered by the Deposit. Additionally, PPUS also advanced an additional deposit of \$349,500, or the Additional Deposit, to Aircom with the intent that the Additional Deposit would be applied towards one or more additional projects that Aircom and PPUS would agree to in the future. Aircom and PPUS agreed to conclude their relationship with respect to the Development Agreement, the Deposit and the Additional Deposit and other prior dealings between them, and to settle all accounts between them. Aircom and PPUS entered into the settlement and release agreement with respect to these matters pursuant to which (i) the Development Agreement was deemed completed and terminated and PPUS agreed to accept, and we agreed to issue to PPUS, 147,400 shares of our Common Stock valued at \$5.00 per share in full settlement of the Deposit and Additional Deposit amounts, or the PPUS Settlement Shares, and (ii) Aircom and PPUS each agreed to waive, release, discharge and covenant not to sue each other with respect to any and all possible claims arising out of or relating to the Development Agreement, the Deposit and the Additional Deposit. Because Daniel Shih is the Chairman of PPUS and, thus, has voting and dispositive power over the PPUS Settlement Shares, under U.S. federal securities regulations he is deemed to be the beneficial owner of the PPUS Settlement Shares even though he is not a shareholder of PPUS. Daniel Shih disclaims beneficial ownership of the PPUS Settlement Shares.

- On March 31, 2017, we entered into a settlement and release agreement with Aircom and Priceplay Taiwan Inc., or PPTW, a Taiwanese limited company and parent of PPUS, its wholly owned subsidiary. Aircom and PPTW entered into a certain purchase order, or the Purchase Order, pursuant to which PPTW agreed to purchase from Aircom a set of mobile satellite communication equipment priced at \$909,000. Pursuant to the terms of the Purchase Order, PPTW paid Aircom \$819,300, or the Initial Payment and Aircom delivered to PPTW a mobile satellite antenna, together with radome, control unit, power supply, and other associated items, or collectively, the Equipment. PPTW raised certain issues regarding the Equipment and informed us that it desired to return the Equipment to Aircom and to receive a refund of the Initial Payment. Aircom and PPTW entered into the settlement and release agreement with respect to these matters pursuant to which (i) Aircom and PPTW agreed to terminate the Purchase Order, (ii) PPTW agreed to return the Equipment to Aircom, (iii) PPTW agreed to accept, and we agreed to issue to PPTW, 163,860 shares of our Common Stock valued at \$5.00 per share in full settlement of the Initial Payment amount, or the PPTW Settlement Shares, and (ii) Aircom and PPTW each agreed to waive, release, discharge and covenant not to sue each other with respect to any and all possible claims arising out of or relating to the Purchase Order or the Initial Payment. Because Daniel Shih is the Chairman of PPUS, under U.S. federal securities regulations he may be deemed to be an affiliate or controlling person of PPTW, the parent of PPUS, its wholly owned subsidiary. As such Daniel Shih may be deemed to be the beneficial owner of the PPTW Settlement Shares even though he is not a shareholder or officer or director of PPTW. Daniel Shih disclaims beneficial ownership of the PPTW Settlement Shares.
- On July 5, 2017, we entered into a subscription agreement with Daniel Shih, the co-founder of the Company, who agreed to purchase an aggregate of 5,000 shares of our Common Stock at a price of \$5.50 per share, for an aggregate purchase of \$27,500. These shares were offered and sold by us to Mr. Shih in a private placement offering exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof and Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering. Mr. Shih subsequently disposed of these shares.
- On January 1, 2019, Aircom entered into an independent contractor agreement with AA TWIN ASSOCIATES LTD, or the consulting company, pursuant to which the consulting company agreed to provide services to Aircom relating to establishing a strategy for promoting Aircom's products to various airlines. Aircom agreed to pay the consulting company the sum of €15,120, or \$16,148, per month for a period of 36 months and granted the consulting company an option to purchase 2,000 shares of the Company's Common Stock per year during the term of the agreement, subject to Board approval. On February 19, 2020, the Board approved the initial 2,000 share option grant at an exercise price of \$14.20 per share. Georges Caldironi, who was appointed the Company's Chief Operating Officer on March 22, 2020, is the principal of AA TWIN ASSOCIATES LTD. The Company expects to cancel the agreement with AA TWIN ASSOCIATES LTD and to enter into an agreement directly with Mr. Caldironi in the near future.
- On February 16, 2020, we entered into a consultant agreement with Daniel Shih, a co-founder and former shareholder of the Company and former Chief Executive Officer of Aircom, our wholly owned operating subsidiary. During the past few years, Mr. Shih had stepped back from the Company to pursue other interests and is no longer a shareholder of the Company. Pursuant to the terms of the consulting agreement, Mr. Shih will provide services to us as a "Business Development Consultant" and will establish and implement a business development strategy for us. We will pay Mr. Shih a monthly retainer of \$10,000 and will reimburse Mr. Shih for actual, necessary and reasonable air travel expenses incurred by Mr. Shih pursuant to the consulting agreement up to a maximum of Twenty Thousand U.S. Dollars (US\$20,000) each calendar month and for actual, necessary and reasonable travel-related hotel and meal expenses incurred by Mr. Shih pursuant to the consulting agreement up to a maximum of Ten Thousand U.S. Dollars (US\$10,000) each calendar month. The Agreement with Mr. Shih will terminate one year from its start date or earlier under certain circumstances. As an independent contractor and not our employee, Mr. Shih will not have any power to bind us or to enter into any contracts on our behalf or on the behalf of any of our subsidiaries. Mr. Shih will not be performing, or be expected or obligated to perform, any broker-dealer, finder, investment banking or investment advisor functions or services on our behalf or on the behalf of any of our subsidiaries. Given Mr. Shih's background in, and knowledge of, the aviation industry, we believe that Mr. Shih will be able to provide valuable services to us at this time.

- Two of our current shareholders (the “Lenders”) each committed to provide to the Company a \$10 million bridge loan (together, the “Loans”) for an aggregate principal amount of \$20 million, to bridge our cash flow needs prior to our obtaining a mortgage loan to be secured by the parcel of land (the “Land”) we purchased in Taiwan. The Lenders also agreed to an earlier closing of up to 25% of the principal amounts of the Loans upon our request prior to the time that title to the Land is vested in our subsidiary, Aerkomm Taiwan, to pay down outstanding payables to our vendors. As of November 7, 2020, we have borrowed approximately \$390,328 (NTD11,300,000) from one of the Lenders under the Loans.
- On May 11, 2020, Aircom entered into a binding product purchase agreement with Yuanjiu for the purchase of 100 sets of the AERKOMM K++, AirCinema Cube for installation on the aircraft of Hong Kong Airlines. The total purchase amount under this agreement was \$1,807,100 and the Company has paid 10% of the total amount, or US \$180,710, as an initial deposit. On July 15, 2020, Aircom signed a second product purchase agreement with Yuanjiu for an additional 100 sets of the AirCinema Cube for the same purchase amount and paid an additional 10% initial deposit (\$180,710) on this agreement as well. Albert Hsu, a member of our board of directors, is the chairman of Yuanjiu.

Our board of directors conducts an appropriate review of and oversees all related party transactions on a continuing basis and reviews potential conflict of interest situations where appropriate. Our board of directors has not adopted formal standards to apply when it reviews, approves or ratifies any related party transaction. However, our board of directors generally reviews related party transactions to ensure that they are fair and reasonable to our company and on terms comparable to those reasonably expected to be agreed to with independent third parties for the same goods and/or services at the time they are authorized by our board of directors.

DIVIDEND POLICY

We have never declared or paid cash dividends on Common Stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our Common Stock in the foreseeable future, if at all. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

DESCRIPTION OF THE BONDS

The following summary of the terms and conditions of each series of the Bonds does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the detailed provisions of the relevant Indenture (as defined below), including the definitions of certain terms therein. In the event of any inconsistency between the following summary and the provisions of the relevant Indenture, the provisions of the relevant Indenture shall prevail.

Each series of the Bonds is being sold outside the U.S. in offshore transactions in reliance on Regulation S and will be available for purchase in the denominations specified in this Offering Memorandum only in book-entry form as beneficial interests in the relevant Global Certificate (as defined below). Your rights as a holder of a beneficial interest in the relevant Global Certificate will be subject to the rules and procedures of Euroclear or Clearstream. See “Summary of Provisions Relating to the Bonds in the Global Certificates” in this Offering Memorandum. Except in limited circumstances described below, you will not be entitled to receive physical delivery of the relevant series of the Bonds in definitive registered form. See “Summary of Provisions Relating to the Bonds in the Global Certificates – Individual Definitive Certificates” in this Offering Memorandum.

Aerkomm Inc. (the “Issuer”) will issue US\$10,000,000 in aggregate principal amount of Credit Enhanced Zero Coupon Convertible Bonds due 2025 (the “Credit Enhanced Bonds”), and US\$200,000 in aggregate principal amount of 7.5% Convertible Bonds due 2025 (the “Coupon Bonds”, and together with the Credited Enhanced Bonds, the “Bonds”) and the Conversion Shares. The issue of the Bonds and the Conversion Shares was authorized by a resolution of the board of directors of the Issuer passed on November 9, 2020. The Credit Enhanced Bonds are constituted by the Credit Enhanced CB Indenture and the Coupon Bonds are constituted by the Coupon CB Indenture (each as amended or supplemented from time to time, each an “Indenture” and together, the “Indentures”), each to be dated on or about December 2, 2020 between the Issuer and Citicorp International Limited as trustee for the holders of the Bonds (the “Trustee” which term shall, where the context so permits, include all other persons for the time being acting as trustee or trustees under the relevant Indenture). The Issuer has entered into separate agency agreements for each series of the Bonds (as amended or supplemented from time to time, each an “Agency Agreement” and together, the “Agency Agreements”), each to be dated on or about December 2, 2020 with Citicorp International Limited as the Trustee and Citibank, N.A., London Branch as principal paying, transfer and conversion agent (the “Principal Paying Agent”) and registrar (the “Registrar”) and the other paying, conversion and transfer agents appointed under it (each a “Paying Agent,” “Conversion Agent” or “Transfer Agent” and together with the Registrar and the Principal Paying Agent, the “Agents”) relating to the Bonds. References to the “Principal Paying Agent,” “Registrar” and “Agents” below are references to the principal paying agent, registrar, and agents for the time being of the Bonds.

Unless otherwise defined, terms used in this “Description of the Bonds” have the meanings specified in the relevant Indenture. Subject to prior written requests, copies of the Indentures and the Agency Agreements will be made available (upon reasonable advance notice being given to the Trustee) for inspection during normal business hours at the corporate trust office of the Trustee being at the date hereof at 20/F Citi Tower, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. The Bondholders are entitled to the benefit of the relevant Indenture and are bound by, and deemed to have notice of, all the provisions of the relevant Indenture and the relevant Agency Agreement applicable to them.

For the purposes of this “Description of the Bonds,” the term “the Issuer” refers only to Aerkomm Inc., a corporation incorporated under the laws of the State of Nevada, U.S.A.

1. STATUS

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Section 5 (*Interest*)) unsecured (except with respect to the Bank Guarantees in respect of the Credit Enhanced Bonds) obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Section 5 (*Interest*), at all times rank at least equally with all of its respective other present and future direct, unsubordinated, unconditional and unsecured obligations.

2. BANK GUARANTEE

The Credit Enhanced Bonds will have the benefit of bank guarantee issued by Bank of Panhsin Co., Ltd. (the “BG Bank”) dated December 2, 2020 (the “Bank Guarantee”), for the total principal amount of the Credit

Enhanced Bonds plus the premium, interest (if any) and any other payment obligations of the Issuer, in favor or the Trustee, on behalf of the holders of the Credit Enhanced Bonds pursuant to a Counter Indemnity Agreement between the Issuer and the BG Bank of dated November 26, 2020.

The amount under the Bank Guarantee is drawable by the Trustee on behalf of the holders of the Credit Enhanced Bonds, upon the presentation of a demand for payment from the Trustee substantially pursuant to the terms set out in the Bank Guarantee. Each drawing shall be made by the Trustee against the BG Bank in accordance with the relevant demand for payment and terms of the Bank Guarantee. If (a) the Issuer has failed to pay the principal, premium, interest (if any) and any other payment obligations of the Issuer (which shall include the default interest) (i) after the declaration by the Trustee that the Credit Enhanced Bonds are due and payable immediately pursuant to Section 6.1 of the Credit Enhanced CB Indenture following an Event of Default (other than any of the events specified in paragraphs 4, 6 and 8 of Section 6.1 of the Credit Enhanced CB Indenture), (ii) on or before one Business Day prior to the due date of any amount on the Bonds payable under this Indenture, or (iii) on or before Maturity Pre-Funding Payment Day of any payments to be made on the Maturity Date of the Credit Enhanced Bonds, or (b) the Credit Enhanced Bonds become immediately due and payable at their principal amount upon the occurrence of any of the events specified in paragraphs 4, 6 and 8 of Section 6.1 of the Credit Enhanced CB Indenture, as applicable, the Trustee shall, subject to Section 7.2(f) and Section 7.2(v) of the Credit Enhanced CB Indenture, as soon as practicable thereafter and in case of the above (a)(ii), on or before the relevant redemption date or the relevant put date, but in any event no later than the Expiry Date of the Bank Guarantee, draw on the Bank Guarantee in accordance with the Credit Enhanced CB Indenture and the Bank Guarantee, provided that in the case of the above (a)(iii), the Trustee shall, subject to Section 7.2(f) and Section 7.2(v) of the Credit Enhanced CB Indenture, within two Business Days following the receipt of the notice from the Pre-funding Account Bank that the payment to be made on the Maturity Date has not been paid in full to the Pre-funding Account by the Issuer on the Maturity Pre-Funding Payment Day, but in any event no later than the Expiry Date, draw on the Bank Guarantee in accordance with Credit Enhanced CB Indenture and the Bank Guarantee. For purpose of this Section 2, “Maturity Pre-Funding Payment Day” shall mean November 2, 2025, being a date which falls on the thirtieth calendar day prior to the Maturity Date for pre-funding of the full payment payable by the Company on the Maturity Date of the Credit Enhanced Bonds; “Pre-funding Account Bank” means Citibank, N.A., Hong Kong Branch or its replacement; “Pre-funding Account” means a U.S. dollar non-interest bearing account (account no. 1031337018, account title: CITI AT AB – AERKOMM PREFUND) established in the name of the Issuer with the Pre-funding Account Bank for the Issuer to pre-fund the payments to be made on the Maturity Date of the Credit Enhanced Bonds.

The Bank Guarantees authorizes the Trustee to draw on the BG Bank, on demand, an amount which is equal to the amount of US\$10,700,000, representing (i) the total principal amount of the Credit Enhanced Bonds at the time of issue, plus (ii) the premium, interest (if any) and any other payment obligations of the Issuer which shall include the default interest with respect to the relevant series of the Credit Enhanced Bonds, subject to reduction as provided therein (the “Stated Amount”). The amount available for drawing under the Bank Guarantee shall be reduced (a) by the principal amount of the Credit Enhanced Bonds that were redeemed, (b) by the principal amount of the Credit Enhanced Bonds that were converted, or (c) by the principal amount of the Credit Enhanced Bonds that were repurchased and cancelled.

The Bank Guarantee will expire at the close of business on the earliest to occur of (i) the Maturity Date of the Credit Enhanced Bonds, and (ii) the date on which the Stated Amount of the Bank Guarantee is reduced to zero.

Each drawing on the Bank Guarantee will be payable in immediately available funds to the Trustee in accordance with the terms of the Bank Guarantee.

3. FORM, DENOMINATION AND TITLE

3.1 Form and denomination

The Bonds shall be issued in fully registered form, in the denomination of US\$200,000 each or integral multiples thereof. Each series of the Bonds shall initially be represented by one or more permanent global certificates in fully registered form without interest coupons in the case of the Credit Enhanced Bonds only (each, a “Global Certificate”).

3.2 Title

Title to the Bonds passes only by transfer and registration in the Bonds Register as defined in Section 4 (*Transfer of Bonds, issue of certificates*). The registered holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all intents and purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, the Definitive Certificate issued in respect of it) and no person will be liable for so treating the holder. In this “Description of the Bonds,” “Bondholder” and (in relation to a Bond) “holder” means the person in whose name a Bond is registered in the Bonds Register.

4. TRANSFER OF BONDS, ISSUE OF CERTIFICATES

4.1 Bonds Register

The Issuer will cause to be kept at the specified office of the Registrar and in accordance with the terms of the relevant Agency Agreement, a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by such holders, and of all transfers, redemptions, conversions and repurchases of the Bonds (the “Bonds Register”). Each Bondholder shall be entitled to receive only one Definitive Certificate with respect to its entire holding.

4.2 Transfers

Transfers of interests in the Bonds evidenced by a Global Certificate will be effected in accordance with the rules of the relevant clearing system. The Bonds evidenced by a Global Certificate will have a minimum denomination of US\$200,000, and integral multiples in excess thereof.

Transfers of Bonds evidenced by definitive Bonds in registered certificated form (“Definitive Certificates”) will be subject to the provisions of Sections 4.3 (*Delivery of new Definitive Certificates*) and 4.4 (*Formalities of transfer*) and the terms of the relevant Agency Agreement, and may be transferred or exchanged by delivery of the Definitive Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorized in writing, to the specified office of the Trustee or the relevant Agent. No transfer of a title to a Bond shall be valid unless and until entered on the Bonds Register.

4.3 Delivery of new Definitive Certificates

4.3.1 Each new Definitive Certificate to be issued upon a transfer or exchange of Bonds will, within seven Business Days of receipt by the Transfer Agent of a duly completed form of transfer, be made available for collection at the specified office of the Trustee or the relevant Agent, or (if so requested in the duly completed form of transfer), be mailed by uninsured mail at the risk of the holder entitled to the Bonds to the address of such holder appearing on the Bonds Register.

4.3.2 Where some, but not all, of the Bonds in respect of which a Definitive Certificate is issued are to be transferred, exchanged, purchased or converted, a new Definitive Certificate will be issued in respect of the Bonds not so transferred, exchanged, purchased or converted within seven Business Days of the delivery of the original Definitive Certificate to the Trustee or other relevant Agent and made available for collection at the specified office of the Trustee or the relevant Agent, or (if so requested in the duly completed form of transfer), be mailed by uninsured mail at the risk of the holder entitled to the Bonds to the address of such holder appearing on the Bonds Register.

4.4 Formalities of transfer

Registration of a transfer of the Bonds will be effected without charge by or on behalf of the Issuer or any of the Agents but upon (a) payment (or the giving of such indemnity as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; and (b) the Issuer or the relevant Transfer Agent being satisfied that the regulations concerning the transfer of the Bonds have been complied with.

5. INTEREST

5.1 No interest payable on the Credit Enhanced Bonds

Except as otherwise provided in this Section 5, no interest shall be payable on the Credit Enhanced Bonds.

5.2 Interest payable on the Coupon Bonds

The Coupon Bonds will bear cash interest at a rate of 7.5% per year until the Maturity Date. Interest on the Coupon Bonds will accrue from, and including, December 2, 2020 or from, and including, the most recent date on which interest has been paid or duly provided for. Interest will be payable semiannually in arrears on June 1 and December 1 of each year (each, an “Interest Payment Date”), beginning on June 1, 2021.

Interest will be paid to the person in whose name a Coupon Bond is registered at the close of business on May 18 or November 17 (whether or not such day is a Business Day), as the case may be, immediately preceding the relevant Interest Payment Date (each, a “Regular Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Regular Record Date and prior to the immediately following Interest Payment Date. So long as the Coupon Bonds are held in global form, each payment in respect of the Global Certificate will be made to the person shown as the holder of the Bonds in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1. Interest on the Coupon Bonds will be computed on the basis of a 360-day year composed of twelve 30-day months and, for partial months, on the basis of the number of days actually elapsed in a 30-day month.

5.3 Default interest

Default interest shall be payable on a Bond at the rate of five percent per annum where such Bond is to be redeemed, converted, repurchased and cancelled in accordance with the terms of the relevant Indenture, and redemption, conversion, repurchase, or payment of the full amount is improperly withheld or refused, or default is otherwise made in respect of such redemption, repurchase, conversion or payment, in which event interest will continue to accrue from the due date of such redemption, repurchase, conversion or payment up to but excluding the date on which all sums due in respect of any such Bond are received by or on behalf of the relevant holder. Interest payable under this Section will be paid in accordance with Section 7 (*Payments*). Holders of the Bonds will not be entitled to any default interest or other payment for any delay after the due date in receiving amounts due or Conversion Shares if (a) the due date is not a Payment Business Day or (b) the Bondholder is late in surrendering any Definitive Certificate (if required to do so) or documents required in accordance with the terms of the relevant Indenture relating to such redemption, repurchase or conversion.

Payments of default interest will be made by transfer to the registered account of the relevant Bondholder in accordance with Section 7 (*Payments*).

6. CONVERSION

6.1 Conversion right

6.1.1 *Conversion Period.* Subject as hereinafter provided and except where restricted by applicable law and regulations, Bondholders have the right to convert their Bonds into Conversion Shares (the “Conversion Right”) at any time during the Conversion Period referred to below.

Subject to and upon compliance with the provisions of this Section, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on and after December 3, 2020 up to the close of business (at the place where the Definitive Certificate evidencing such Bond is deposited for conversion) on November 20, 2025, or if such Bond shall have been called for redemption then up to the close of business (at the place aforesaid) on a date no later than five Business Days (at the place aforesaid) prior to the date fixed for redemption thereof, excluding in each case any Book Closure Periods (the “Conversion Period”).

The number of Conversion Shares to be delivered on conversion of a Bond will be determined by dividing the principal amount of the Bonds to be converted by the Conversion Price in effect at the Conversion Date. A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Conversion Shares to be delivered upon such conversion will be calculated on the basis of the aggregate principal amount represented by such Bonds to be converted and rounded down to the nearest whole number of Conversion Shares.

Upon the exercise of Conversion Rights in relation to any Bond and the fulfillment by the Issuer of all of its obligations in respect thereof, the relevant Bondholder shall have no further rights in respect of such Bond and the obligations of the Issuer in respect thereof shall be extinguished.

Upon conversion of the Coupon Bonds, no separate cash payment for accrued and unpaid interest, if any, will be made except as described below. As a result, accrued and unpaid interest in respect of the Coupon Bonds so converted, if any, to, but not including, the relevant Conversion Date will be deemed to be paid in full rather than cancelled, extinguished or forfeited.

Notwithstanding the immediately preceding paragraph, if the Coupon Bonds are converted after the close of business on a Regular Record Date for the payment of interest and prior to the open of business on the immediately following Interest Payment Date, holders of such Coupon Bonds at the close of business on such Regular Record Date will receive the full amount of interest payable on such Coupon Bonds on the corresponding Interest Payment Date notwithstanding the conversion. Coupon Bonds surrendered for conversion during the period from the close of business on any Regular Record Date to the open of business on the immediately following Interest Payment Date must be accompanied by an amount in euro dollars equal to the amount of interest payable on the Coupon Bonds so converted; provided that no such payment need be made:

- for conversions of the Coupon Bonds following the Regular Record Date immediately preceding the Maturity Date of the Coupon Bonds;
- if the Issuer has called the Coupon Bonds for tax redemption on a Tax Redemption Date pursuant to Section 8.3 (*Redemption for taxation reasons*) that is after a Regular Record Date and on or prior to the Business Day immediately succeeding the corresponding Interest Payment Date (or, if such Interest Payment Date is not a Business Day, the second Business Day immediately succeeding such Interest Payment Date);
- if the Issuer has specified a Change of Control Put Date pursuant to Section 8.6 (*Change of Control Put Right*) that is after a Regular Record Date and on or prior to the Business Day immediately succeeding the corresponding Interest Payment Date (or, if such Interest Payment Date is not a Business Day, the second Business Day immediately succeeding such Interest Payment Date); or
- to the extent of any overdue interest, if any overdue interest exists at the time of conversion with respect to such Coupon Bonds.

Therefore, for the avoidance of doubt, all record holders of the Coupon Bonds on the Regular Record Date immediately preceding the Maturity Date will receive the full amount of interest payable on the Maturity Date, regardless of whether their Coupon Bonds have been converted following such Regular Record Date.

The Trustee and the Agents shall be under no duty to calculate, determine or verify the number of Conversion Shares to be delivered on conversion of a Bond or verify the Issuer's determination of such number of Conversion Shares or method used or to be used in such determination and neither the Trustee nor any Agents shall be responsible to holders or any other person for any loss arising from any failure to do so or for any delay of the Issuer in making such determination or any erroneous determination by the Issuer.

6.1.2 Fractions of shares. Fractional Conversion Shares will not be delivered on conversion, and the Issuer will settle amounts representing such fractional Conversion Share entitlements in cash

net of remittance fees, rounding to one U.S. dollar with US\$0.50 being rounded upwards, *provided that* such sum exceeds US\$10.00, by transfer to the registered account of the relevant Bondholder in accordance with Section 7 (*Payments*).

- 6.1.3 Conversion Price.** The initial price at which the Conversion Shares will be delivered upon conversion (the “Conversion Price”) will be US\$13.30 but will be subject to adjustment in the manner provided in Section 6.3 (*Adjustments to the Conversion Price*).
- 6.1.4 Revival and/or survival of Conversion Rights after Default.** Notwithstanding the provisions of Section 8 (*Redemption, repurchase and cancellation*), if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events referred to in Section 10 (*Events of default*) or (c) any Bond is not redeemed on the Maturity Date in accordance with Section 8.1 (*Maturity*), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Definitive Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of monies payable in respect of such Bond has been duly received by the Principal Paying Agent or the Trustee, notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Section 8 (*Redemption, repurchase and cancellation*), any Bond in respect of which a Definitive Certificate and Conversion Notice has been deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined in Section 6.2.1) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Paying Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- 6.1.5 Meaning of “shares” and “Conversion Shares.”** As used in these Sections, the expression “shares” means shares of Common Stock with a par value of US\$0.001 each of the Issuer as of the date of the relevant Indenture listed on the Euronext Paris or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares after the date of the relevant Indenture, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Issuer. The expression “Conversion Shares” shall mean new shares of Common Stock to be issued with a par value of US\$0.001 each of the Issuer to be delivered to each converting Bondholder upon conversion of the Bonds, for which the Issuer shall be required to apply for listing and trading thereof on the Euronext Paris, as applicable.

6.2 Conversion procedure

- 6.2.1 Conversion notice.** To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense between 9:00 a.m. to 3:00 p.m. on any Business Day at the specified office of any Conversion Agent a notice of conversion (a “Conversion Notice”) in duplicate, in the form obtainable from the specified office of each Agent, together with the relevant Definitive Certificate. A converting Bondholder will be required to make certain representations in the Conversion Notice, including a representation that he has paid all amounts required to be paid by him, as a Bondholder, under Section 6.2.2 (*Stamp duty and other expenses*).

The conversion date in respect of a Bond (the “Conversion Date”) will be the first Business Day following deposit of the Conversion Notice with a Conversion Agent which does not fall within the Book Closure Period, as described above. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents to such withdrawal in writing. All Conversions of the Bonds will be subject to applicable French and U.S. laws and regulations.

- 6.2.2 Stamp duty and other expenses.** A Bondholder delivering a Definitive Certificate in respect of a Bond for conversion must pay directly to the relevant tax authorities any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in the Republic of Singapore, France or the United States, by the Issuer in respect of the delivery of the Conversion Shares on conversion) (the “Taxes”) and such Bondholder must pay all, if any, Taxes arising by reference to any disposal or deemed disposal

of a Bond in connection with such conversion. The Conversion Agent and Trustee are under no obligation to determine whether a Bondholder is liable to pay any Taxes including stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Section 6. The Trustee and the Conversion Agent shall not be concerned with, nor shall they be obliged or required to enquire into, the sufficiency of any amount paid to them for this purpose and are not under any obligation to determine whether the Issuer or the Bondholder is liable to pay any Taxes (including, without limitation, in the country in which the Bond is deposited for conversion or in any jurisdiction consequent upon the issue or transfer of Conversion Shares to or to the order of a person other than the exercising Bondholder).

The Issuer shall pay all other costs and expenses arising on, and directly relating to, the delivery of the Conversion Shares on conversion of the Bonds, including all brokerage fees and transaction costs in connection with the delivery of the Conversion Shares.

6.2.3 Registration.

- (i) Subject to the receipt of a validly completed Conversion Notice, the relevant Definitive Certificate(s) and all documentary evidence or confirmations required by the Issuer or Trustee for the purposes of ensuring compliance with applicable French, U.S. and Singapore laws and regulations and to the deposit or payment of amounts payable by the relevant holder as required under Section 6.2.2 (*Stamp duty and other expenses*), the Issuer shall procure that the relevant number of Conversion Shares are delivered to the converting holder or person(s) designated in the Conversion Notice to be registered as holder(s) of such Conversion Shares as soon as practicable, and in any event not later than the date on which the Conversion Shares may first be delivered by the Issuer in accordance with applicable French and U.S. laws and regulations relating to such conversion and settlement or five (5) Trading Days after the specified Conversion Date, whichever is later. Such delivery will be made by, in the case of Conversion Shares which are listed and traded on the Euronext Paris, crediting the relevant number of Conversion Shares to the Euronext Paris-approved securities trading account of the converting holder or the person or persons designated in the Conversion Notice to be registered as holder(s) of the relevant number of Conversion Shares. No share certificates will be issued to the converting Bondholder(s) for so long as the Conversion Shares are deposited with the common depositary designated by the Euronext Paris for the purposes of listing and trading in the Conversion Shares. Subject to the above, where Conversion Shares in certificated form are allotted and issued, certificates for Conversion Shares issued on conversion will be made available for collection at the specified office of the Registrar or, if so requested in the relevant Conversion Notice, will be mailed (at the risk, and, if sent at the request of such converting holder otherwise than by ordinary mail, at the expense of such holder) to the person and at the place specified in the Conversion Notice on the Conversion Date.
- (ii) Notwithstanding the foregoing, if the Conversion Date in respect of a Bond would fall during a period in which the stock transfer book of the Issuer is closed generally or for the purpose of establishing entitlement to any dividend, distribution or other rights attaching to the shares (such period, a “Book Closure Period”), the delivery of Conversion Shares as set out above shall be postponed to the date on which the Conversion Shares may first be delivered by the Issuer in accordance with applicable French and U.S. laws and regulations relating to such conversion and settlement after the expiry of the Book Closure Period and such date shall be deemed to be the Conversion Date for the purposes of the Conversion Notice.
- (iii) If the Conversion Date in relation to any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Section 6.3 (*Adjustments to the Conversion Price*), but before the relevant adjustment becomes effective under the relevant Section, the Issuer shall procure (in respect of such Bond and upon the relevant adjustment becoming effective) the delivery to the converting Bondholder (subject to applicable exchange control or other laws or other regulations), of such additional number of Conversion Shares which, when aggregated with the Conversion Shares delivered or to be

delivered on conversion of the relevant Bond, would be equal to the number of Conversion Shares which would have been required to be delivered on conversion of such Bond if the relevant adjustment to the Conversion Price had been effected on the Conversion Date.

- (iv) No payment or adjustment shall be made on conversion for any default interest which otherwise would have accrued on the Bonds which have been converted pursuant to Section 6.1.4 (*Revival and/or survival of Conversion Rights after default*).
- (v) The person or persons designated in the relevant Conversion Notice will be deemed to be the holder of record of the number of Conversion Shares deliverable upon conversion with effect from the date the relevant Conversion Shares are credited to the Euronext Paris-approved securities trading account or other relevant securities account or, if the Conversion Shares are no longer listed or traded on the Euronext Paris, the date on which they are registered as such in the Issuer's stock transfer book (the "Registration Date"). The Conversion Shares delivered upon conversion of the Bonds will in all respects rank *pari passu* with the shares of the Issuer outstanding on the relevant Registration Date. Save as set out in these Sections, a holder of Conversion Shares delivered on conversion of Bonds shall not be entitled to any rights, the record date for which precedes the relevant Registration Date.
- (vi) The converting Holder shall be entitled to any annual dividend distributions of the Company if the Conversion Date falls on a date during the period from January 1 to the fifteen (15) Trading Days (exclusive) prior to the record date for determination of stockholders entitled to receipt of dividends.
- (vii) As used in these Sections, "securities trading account" means, with respect to any person, any securities sub-account of such person's broker's or custodians' securities Account, registered under the name of the relevant person, which sub-account is intended to receive Conversion Shares delivered pursuant to the exercise of any Conversion Rights by using a non US broker or custodian to facilitate the delivery of such Conversion Shares by Euroclear, and "Euronext Paris-approved securities trading account" means, with respect to a broker or a custodian, the securities account registered under the name of such broker or custodian with the Euronext Paris which details, inter alia, the ownership of certain securities and/or funds belonging to such broker or custodian or administered by such broker or custodian on behalf of any of its clients.

6.3 Adjustments to the Conversion Price. The Conversion Price will be subject to adjustment as follows:

6.3.1 Anti-dilution Adjustments. The Conversion Price will be subject to adjustment in the manner provided upon the occurrence of any of the following events:

- (i) A division, consolidation and reclassification of shares

If the Issuer shall (a) divide its outstanding Shares, (b) consolidate its outstanding Shares into a smaller number of Shares, or (c) re-classify any of its Shares into other securities of the Issuer, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this Section 6.3.1(i), shall be entitled to receive the number of Shares and/or other securities of the Issuer which he would have held or have been entitled to receive after the happening of any of the events described above had such Bond been converted immediately prior to the happening of such event (or, if the Issuer has fixed a prior record date for the determination of stockholders entitled to receive any such issue of Shares or other securities upon any such division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

(ii) Free distribution of shares, bonus issuances to stockholders and scrip dividends

If the Issuer shall, without requiring consideration, (a) make a free distribution of Shares to its stockholders, (b) make a bonus issue of its Shares to its stockholders, or (c) declare a stock dividend in Shares, then the Conversion Price in effect on the date when such free distribution, bonus issue of Shares and/or stock dividend in Shares is declared (or, if the Issuer has fixed a record date for the determination of stockholders entitled to receive such dividend and/or distribution, on such record date) shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Section 6.3.4) at the time of such declaration of such distribution, issue, or dividend (or at the close of business in Paris on the record date as the case may be).

n = the number of Shares to be distributed to the stockholders as a distribution, issue, or dividend.

An adjustment made pursuant to this Section 6.3.1(ii) shall become effective immediately on the relevant event referred to above becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Shares and/or free distribution or bonus issue of Shares which must, under applicable laws of the State of Nevada, be submitted for approval to a meeting of the stockholders of the Issuer or be approved by a meeting of the Board of Directors of the Issuer before being legally paid or made, and which is so approved after the record date fixed for the determination of stockholders entitled to receive such dividend and/or distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date. Any such adjustment shall be without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

(iii) Concurrent adjustment events

If the Issuer shall declare a dividend in, or make a free distribution or bonus issue of, Shares which dividend, issue or distribution is to be paid or made to stockholders as of a record date which is also:

- (a) the record date for the issue of any rights or warrants or options which requires an adjustment of the Conversion Price pursuant to Section 6.3.1(iv), (v) or (vi);
- (b) the day immediately before the date of issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Section 6.3.1(viii);
- (c) the day immediately before the date of issue of any Shares which requires an adjustment of the Conversion Price pursuant to Section 6.3.1(ix) or, if applicable, the record date for determination of stock dividend entitlement as referred to in Section 6.3.1(ix);
- (d) the day immediately before the date of issue of any rights, options or warrants

which requires an adjustment of the Conversion Price pursuant to Section 6.3.1(x); or

- (e) determined by the Issuer and notified by the Issuer to the Trustee to be the relevant date for an event or circumstance which requires an adjustment to the Conversion Price pursuant to simultaneous issues of different classes of shares as provided in the relevant Indenture;

then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Conversion Price under Section 6.3.1(i) or Section 6.3.1(ii)) no adjustment of the Conversion Price in respect of such dividend, bonus issue or free distribution shall be made under this Section 5.3.1(iii), but in lieu thereof an adjustment shall be made under Section 6.3.1(iv), (v), (vi), (viii), (ix), (x) or (xii) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Shares to be issued pursuant to such dividend, bonus issue or free distribution.

(iv) Right Issues to Stockholders

If the Issuer shall, through public offering or private placement, grant, issue or offer to the holders of Shares rights entitling them to subscribe for or purchase Shares:

- (a) at a consideration per Share receivable by the Issuer (determined as provided in Section 6.3.6) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Issuer which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date the Issuer fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of stockholders entitled to receive such rights or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Section 6.3.4) at the close of business in Taipei (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.

n = the number of Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares for which applications are received from stockholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Section 6.3.6) would purchase at CMP.

CMP = the Current Market Price per Share on the record date or on the date the Issuer fixes the said consideration (if applicable) for the determination of stockholders entitled to receive such distribution.

Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Shares by stockholders entitled to the same pursuant to such rights or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Shares, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any such Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the stockholders entitled thereto (or persons to whom stockholders have transferred such rights) who have submitted applications for such Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(v) Warrants or Options Issued to Stockholders

If the Issuer shall, through public offering or private placement, grant, issue or offer to the holders of Shares warrants or options entitling them to subscribe for or purchase Shares:

- (a) at a consideration per Share receivable by the Issuer (determined as provided in Section 6.3.6) which is fixed on or prior to the record date for the determination of stockholders entitled to receive such warrants or options and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Issuer which is fixed after the record date mentioned above and is less than the Current Market Price per Share on the date the Issuer fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of stockholders entitled to receive such warrants or options or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Section 6.3.1(iv).

N = the number of Shares outstanding (having regard to Section 6.3.4) at the close of business in Taipei (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.

n = the number of Shares to be issued upon exercise of such warrants or options at the said consideration which, where no applications by stockholders entitled to such warrants or options are required, shall be based on the number of warrants or options issued. Where applications by stockholders entitled to such warrants or options are required, the number of such Shares shall be calculated based upon (aa) the number of

warrants or options which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants or options for which applications are received from stockholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Section 6.3.6) would purchase at CMP.

Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants or options are required from stockholders entitled to the same, upon their issue and (ii) where applications by stockholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after the Issuer fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of warrants or options entitling them to subscribe for or purchase Shares in the circumstances described in (a) and (b) of this Section 6.3.1(v), any warrants or options which are not subscribed for or purchased by the stockholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants or options, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of warrants or options entitling them to subscribe for or purchase Shares, any warrants or options which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the stockholders entitled thereto (or persons to whom stockholders have transferred the right to purchase such warrants or options) who have submitted applications for such warrants or options as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(vi) Issues of Rights or Warrants or Options for Equity Related Securities to Stockholders

If the Issuer shall, through public offering or private placement, grant, issue or offer to the holders of Shares rights or warrants or options entitling them to subscribe for or purchase any securities convertible into or exchangeable for Shares:

- (a) at a consideration per Share receivable by the Issuer (determined as provided in Section 6.3.6) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Issuer (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date the Issuer fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of stockholders entitled to receive such rights or warrants or options or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Section 6.3.1(iv).

N = the number of Shares outstanding (having regard to Section 6.3.4) at the close of business in Taipei (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.

n = the number of Shares initially to be issued upon exercise of such rights or warrants or options and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from stockholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants or options, where no applications by stockholders entitled to such warrants or options are required, shall be based on the number of warrants or options issued. Where applications by stockholders entitled to such warrants or options are required, the number of such Shares shall be calculated based upon (aa) the number of warrants or options which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants or options for which applications are received from stockholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Section 6.3.6) would purchase at CMP (as defined in Section 6.3.6(iv)).

Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants or options are required from stockholders entitled to the same, upon their issue and (b) where applications by stockholders entitled to the warrants or options are required as aforesaid and in the case of convertible or exchangeable securities by stockholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after the Issuer fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants or options entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares in the circumstances described in this Section 6.3.1(vi), any convertible or exchangeable securities or warrants or options which are not subscribed for or purchased by the stockholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants or options, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares or rights or warrants or options entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares, any convertible or exchangeable securities or warrants or options which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the stockholders entitled thereto (or persons to whom stockholders have transferred such rights or the right to purchase such warrants or options) who have submitted applications for such convertible or exchangeable securities or warrants or options as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(vii) Other Distributions to Stockholders

If the Issuer shall (x) distribute to the holders of Shares evidence of its indebtedness, or shares of capital stock of the Issuer (other than Shares), assets, cash (other than interim and annual dividends in cash) or rights or warrants or options to subscribe for or purchase Shares or securities (excluding those rights and warrants or options referred to in Section 6.3.1(iv), (v) and (vi) above), or (y) distribute cash dividend to the holders of the Shares (“Capital Distribution”); then the Conversion Price in effect on the record date for the determination of stockholders entitled to receive such distribution shall be adjusted in accordance with the following formulas:

In the case of (x) above:

$$NCP = OCP \times \frac{CMP - fmV}{CMP}$$

and

In the case of (y) above:

$$NCP = OCP \times \frac{CMP - C}{CMP}$$

where:

CMP, NCP and OCP have the meanings ascribed thereto in Section 6.3.1(iv).

fmV = the fair market value (as determined by the Issuer or, if pursuant to applicable law of the State of Nevada such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court) of the portion of the evidences of indebtedness, equity share capital shares of capital stock, assets, rights or warrants or options so distributed applicable to one (1) Share less any consideration payable for the same by the relevant shareholder.

C = the amount of cash dividend distributed per one (1) Share.

In making a determination of the fair market value of any such evidences of indebtedness, shares of capital stock, assets, rights or warrants or options, the Issuer shall consult the Qualified Financial Institution (as defined in Section 6.3.7) and shall take fully into account the advice received from such Qualified Financial Institution.

If such dividend or distribution is not paid or made, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such dividend or distribution had not been paid or made.

For the avoidance of doubt, no adjustment to the Conversion Price under this Section 6.3.1 will be required for any cash paid to the Company's stockholders in a repurchase of Shares on the open market for the purpose of holding such Shares in treasury.

Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution, provided that (a) in the case of such a distribution which must, under applicable law of the State of Nevada, be submitted for approval to a meeting of the stockholders or be approved by a meeting of the Board of Directors of the Issuer before such distribution may legally be made and is so approved after the record date fixed for the determination of stockholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of the evidences of indebtedness, shares of capital stock, assets, rights or warrants or options so distributed cannot be determined until after the record date fixed for the determination of stockholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after

such record date.

(viii) Issue of Convertible or Exchangeable Securities Other Than to Stockholders or on Exercise of Warrants or Options

If the Issuer shall, through public offering or private placement, issue any securities convertible into or exchangeable for Shares (other than the Bonds, or in any of the circumstances described in Section 6.3.1(vi) and (x)) or grant such rights in respect of any existing securities and the consideration per Share receivable by the Issuer (determined as provided in Section 6.3.6) shall be less than the Current Market Price per Share on the date in France on which the Issuer fixes the said consideration (or, if the issue of such securities is subject to approval by a meeting of the stockholders, on the date on which the Board of Directors of the Issuer fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Section 6.3.1(iv).

N = the number of Shares outstanding (having regard to Section 6.3.4) at the close of business in Taipei on the day immediately prior to the date of such issue.

n = the number of Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Issuer would purchase at CMP (as defined in Section 6.3.1(iv)).

Such adjustment shall become effective as of the calendar day in France corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

(ix) Other Issues of Shares

If the Issuer shall, through public offering or private placement, issue any Shares (other than Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Bonds) issued by the Issuer or upon exercise of any rights or warrants or options granted, offered or issued by the Issuer or in any of the circumstances described in Section 6.3.1(i) and (ii)), including Shares issued in connection with a Merger or acquisition of shares of other companies, then the Conversion Price in effect immediately prior to the issue of such additional Shares shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Section 6.3.1(iv).

N = the number of Shares outstanding (having regard to Section 6.3.4) at the close of business in Paris on the day immediately prior to the date of issue of such additional Shares.

n = the number of additional Shares issued as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Section 6.3.6) would purchase at the Current Market Price per Share on the day immediately prior to the date of issue of such additional Shares.

Such adjustment shall become effective as of the calendar day in France of the issue of such additional Shares; provided that in the case of the issue of Shares in connection with Merger or acquisition of shares of other companies, such adjustment shall become effective on the record date set for such Merger or acquisition.

(x) Issue of Equity Related Securities

If the Issuer shall, through public offering or private placement, grant, issue or offer options, warrants or rights (excluding those rights, warrants and options referred to in Section 6.3.1(iv), (v), (vi) and (vii)) to subscribe for or purchase Shares or securities convertible into or exchangeable for Shares and the consideration per Share receivable by the Issuer (determined as provided in Section 6.3.7) shall be less than the Current Market Price per Share on the date in France on which the Issuer fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a meeting of the stockholders, on the date on which the Board of Directors of the Issuer fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Section 6.3.1(iv).

N = the number of Shares outstanding (having regard to Section 6.3.4) at the close of business in Taipei on the day immediately prior to the date of such issue.

n = the number of Shares to be issued on exercise of such rights, warrants or options and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.

v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Section 6.3.6) would purchase at the Current Market Price per Share on the day immediately prior to the date of such issue.

Such adjustment shall become effective as of the calendar day in France corresponding to the calendar day at the place of issue on which such rights, warrants or options are issued.

(xi) Adjustment upon capital reduction

If the Issuer shall decrease its capital by reducing the aggregate amount of its outstanding Shares, other than a decrease in capital resulting from the cancellation of treasury stocks purchased and canceled by the Issuer, then the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = (OCP - C) \times \frac{N}{n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

C = the amount of any cash distributed per one (1) Share in the capital reduction. C shall be the repurchase price per share if the Shares were repurchased by the Company for cancellation in a capital reduction.

N = the number of Shares outstanding at the close of business in Paris on the day immediately prior to the date on which the Issuer's capital being decreased.

n = the number of Shares outstanding immediately after the capital reduction.

Such adjustment shall become effective immediately on such decrease of capital becoming effective.

For the avoidance of doubt, no adjustment to the Conversion Price under this Section 6.3.1(xi) will be required if the Company cancels any Shares that it repurchased on the open market (as opposed to repurchase of Shares from all stockholders of the Company on a pro rata basis for capital reduction purpose).

(xii) Analogous events and modifications

If (i) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities) or (ii) the Issuer determines or written notice has been given to the Trustee that any other event or circumstance has occurred which has or would have an effect on the position of the Holders as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of the Issuer, taken as a class which is analogous to any of the events referred to in Section 6.3.1(i) to (xi), then, in any such case, the Issuer shall notify the Trustee in writing thereof or if the Trustee has been notified and the Issuer shall consult with a Qualified Financial Institution, as to what adjustment, if any, should be made to the Conversion Price to preserve the value of the Conversion Right of Holders and will make any such adjustment.

In case of a Merger of the Issuer, each Bond then outstanding shall, without the consent of any Holder, become convertible only into the kind and amount of securities, cash and other property receivable upon such Merger by a holder of the number of Shares into which such Bonds could have been converted immediately prior to such Merger. The corporation formed by such Merger or the Person that acquired such properties and assets shall enter into a supplemental indenture with the Trustee to provide for the continuation of the Conversion Rights to continue after such Merger or acquisition and such supplemental indenture shall provide for adjustments to the Conversion Price which shall be as nearly equivalent as practicable to the adjustments provided in the relevant Indenture.

6.3.2 Avoidance of double counting. For the purposes of determining any adjustments to be made to the Conversion Price in accordance with this Section 6.3 (*Adjustments to the Conversion Price*), any previous adjustments already made at the time of a retroactive adjustment shall be taken into consideration, and where such adjustment has taken into account shares to be issued or issuable for the purposes of determining the number of shares which may be purchased based on the consideration received by the Issuer at the Current Market Price, such shares shall be deemed to be outstanding and issued for the purposes of the later adjustment.

6.3.3 *No adjustments for Conversion Shares issued upon conversion of the Bonds.* No adjustments to the Conversion Price under this Section 6.3 (*Adjustments to the Conversion Price*) shall be made on account of any Conversion Shares issued, or treasury shares transferred, by the Issuer upon conversion of the Bonds, nor for any repurchase, redemption or cancellation of the Bonds by the Issuer in accordance with the terms of the relevant Indenture.

6.3.4 *Cumulative Adjustments.* If, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Section 6.3.1(ii), (iv), (v), (viii), (ix) and (x) above, the Conversion Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Section 6.3.5(i)) to reflect an issue of Shares or of securities convertible into or exchangeable for Shares or of rights, warrants or options to subscribe for or purchase Shares or securities, to the extent that the number of such Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Shares in issue at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such excess Shares shall be deemed to be outstanding for the purposes of making such computation.

6.3.5 *Provisions Applicable to All Conversions and Adjustments of Conversion Price Provisions.*

- (i) No adjustment of the Conversion Price shall be required to be made until cumulative adjustments, required to be made in circumstances set forth above, amount to one percent (1%) or more of the Conversion Price as last adjusted. However, any adjustment, required to be made in the circumstances set forth above, which is not made because of failure to meet the one percent (1%) threshold, shall be carried forward.
- (ii) All calculations relating to conversions, including adjustments of the Conversion Price, shall be made to the nearest one share of securities or other property or nearest US\$0.01 with US\$0.005 being rounded up to the next US\$0.01, as the case may be.
- (iii) The Conversion Price may not be adjusted or reduced so that the Conversion Price is lower than the par value of the Shares or, on conversion of the Bonds, Shares would fall to be issued at a discount to their par value and if the Conversion Price as adjusted based on this Section 6.3 is lower than the par value of the Shares, the adjusted Conversion Price shall be equal to the par value of the Shares.
- (iv) The Trustee and the Agents shall not be obliged to monitor whether any event has occurred that may require any adjustment of the Conversion Price above and shall assume that none has occurred until they have actual knowledge by way of express notice in writing from the Issuer to the contrary and will not be responsible to holders or any other person for any loss arising from any failure by the Issuer to provide such notice or for any adjustment or lack of adjustment of the Conversion Price.

6.3.6 *Consideration Receivable by the Company.*

For the purposes of any calculation of the consideration receivable by the Company pursuant to Sections 6.3.1(iv), (v), (vi), (viii), (ix) and (x), the following provisions shall be applicable:

- (i) in the case of the issue of Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith;
- (ii) in the case of the issue of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Company (and in making such determination the Company shall consult an independent securities company or bank of international repute in Paris selected by the Company and notified to the Trustee, and shall take fully into account the advice received from such company or bank) or, if pursuant to applicable law of State of Nevada such determination is to be made by application to a court of

competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;

- (iii) in the case of the issue (whether initially or upon the exercise of rights, warrants or options) of securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration received by the Company for such securities and (if applicable) rights, warrants or options plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights, warrants or options at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Section 6.3.6) and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights, warrants or options at the initial subscription or purchase price;
- (iv) in the case of the issue of rights, warrants or options to subscribe for or purchase Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration received by the Company for any such rights, warrants options plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights, warrants or options at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Section 6.3.6) and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) the exercise of such rights, warrants or options at the initial subscription or purchase price;
- (v) if any of the consideration referred to in any of the preceding sub-Clauses of this Section 6.3.6 is receivable in a currency other than euros, such consideration shall (in any case where there is a fixed rate of exchange between the euros and the relevant currency for the purposes of the issue of the Shares, the conversion or exchange of such securities or the exercise of such rights, warrants or options) be translated into euros for the purposes of this Section 6.3.6 at such fixed rate of exchange and shall (in all other cases) be translated into euros at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in France for buying and selling spot units of the relevant currency by telegraphic transfer against euros on the date as of which the said consideration is required to be calculated as aforesaid;
- (vi) in the case of the issue of Shares credited as fully paid out of retained earnings or capitalization of reserves at their par value, the aggregate consideration receivable by the Company shall be deemed to be zero (and accordingly the number of Shares which such aggregate consideration receivable by the Company could purchase at the relevant OCP per Share shall also be deemed to be zero); and
- (vii) in the case of the issue of Shares in connection with a Merger, the aggregate consideration received per Share by the Company shall be deemed to be the net asset value per share of the merged company (shown in the latest audited or reviewed financial statements of the merged company) multiplied by the share exchange ratio determined pursuant to such Merger. In the case of the issue of Shares in connection with acquisition of shares of other companies, the consideration received per Share by the Company shall be deemed to be the book value of shares of the acquired company multiplied by the exchange ratio determined pursuant to such acquisition.

6.3.7 Qualified Financial Institution. For the purposes of determining adjustments to be made to the Conversion Price under this Section 6.3, the Issuer may appoint a Qualified Financial Institution and shall notify the Trustee of such appointment as soon as practicable and in any case within 5 Business Days. Where more than one event which gives or may give rise to adjustments to

the Conversion Price occurs within such a short period of time that in the reasonable opinion of the Qualified Financial Institution (acting as an expert), the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the Qualified Financial Institution based on its reasonable opinion as appropriate.

6.4 Definitions and conventions

For the purposes of this “Description of the Bonds”:

“Affiliate” means, with respect to any Person (the “Specified Person”), (i) any Person other than the Specified Person directly or indirectly controlling, controlled by or under direct or indirect common control with, the Specified Person or (ii) any Person who is a director or executive officer (A) of the Specified Person, (B) of any Subsidiary of such Specified Person or (C) of any Person described in clause (i) above. For purposes of this definition, the term “control” when used with respect to any Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or by agreement or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Business Day” means a day other than a Saturday or Sunday on which banks are open for business in the specified place or, if no such place is specified, in City of New York, London, Hong Kong and Paris.

“Change of Control” will be deemed to have occurred when (i) Control of the Issuer is acquired or deemed to be held by any Person or Persons acting together if such Person or Persons does not or do not have, and would not be deemed to have, control of the Issuer on the Issue Date, (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in such other Person or Persons acquiring Control over the Issuer or the successor entity; or (iii) one or more other Persons acquires the legal or beneficial ownership of all or substantially all of the capital stock of the Issuer. Notwithstanding anything in this Description of the Bonds to the contrary, for the purposes of this definition, the term “Person” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organization, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer’s Board of Directors or any other governing board of the Issuer and does not include the Issuer’s wholly-owned direct or indirect subsidiaries and the term “Control” means the right to appoint and/or remove all or the majority of the members of the Issuer’s Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of Shares, the possessions of voting rights, contact or otherwise.

“Closing Price” of the shares for any Trading Day shall be the closing market price derived from Euronext Paris for such Trading Day.

“Current Market Price” means the average of the Closing Prices of the shares on Euronext Paris for the thirty (30) consecutive Trading Days immediately prior to the pricing day for the issuance of the securities or rights or the closing day for the delivery of such securities in a private placement, or the announcement of the record date for the distribution of cash dividends. If the Issuer has more than one class of share capital comprising shares, then the relevant Current Market Price for shares shall be the price for that class of shares the issue of which (or of rights, warrants or options in respect of, or securities convertible into or exchangeable for, that class of shares) gives rise to the adjustment in question. If during the said period or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment to the Conversion Price under the provisions hereof, then the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as a Qualified Financial Institution shall in its absolute discretion deem appropriate and fair to compensate for the effect thereof.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Early Redemption Amount” means, with respect to a date of redemption or repurchase other than the redemption at (i) maturity pursuant to Section 8.1 or (ii) Issuer’s Anniversary Call Date pursuant to Section 8.2.2

and (A) for each US\$200,000 principal amount of the Coupon Bonds, the amount at 100% of their principal amount plus any accrued and unpaid interest as of the date of redemption or repurchase but excluding such date for redemption or repurchase and (B) for each US\$200,000 principal amount of the Credit Enhanced Bonds, the amount calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards:

$$\text{Early Redemption Amount} = I \times (1 + r/2)^{d/180}$$

where:

I = Issue price (100% of principal amount) of the Credit Enhanced Bonds.

r = 1% expressed as a decimal.

d = number of days from, and including, December 2, 2020 to, but excluding, such date for redemption or repurchase, calculated on the basis of a 360-day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

Semi-Annual Date	Early Redemption Amount (in U.S. dollars)
June 2, 2021	201,000.00
December 2, 2021	202,005.00
June 2, 2022	203,015.03
December 2, 2022	204,030.10
June 2, 2023	205,050.25
December 2, 2023	206,075.50
June 2, 2024	207,105.88
December 2, 2024	208,141.41
June 2, 2025	209,182.12
December 2, 2025	210,228.03

“Early Redemption Premium Amount” means, with respect to the Issuer’s Anniversary Call Date (as defined below) of redemptions and for each US\$200,000 principal amount of (A) the Coupon Bonds, the amount equals to US\$202,000 plus any accrued and unpaid interest and (B) the Credit Enhanced Bonds, the amount equals to US\$206,070.40.

“Guarantee” means a guarantee (other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

“Indebtedness” means, with respect to any Person at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by the Bonds, debentures, Bonds or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with the generally accepted accounting principles applicable to such Person, (v) all indebtedness secured by a Lien on any asset of such Person, whether or not such indebtedness is otherwise an obligation of such Person, (vi) all obligations of such Person to purchase securities or other property that arise out of or in connection with the sale of the same or substantially similar securities or property, (vii) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under

a letter of credit or similar instrument and (viii) all indebtedness of others guaranteed, indemnified, hypothecated or otherwise supported by such Person.

“Lien” means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such property or asset, including without limitation, the right of a vendor, lessor or similar party under any conditional sales agreement, capital lease or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any property or asset, or the proceeds therefrom, prior to any general creditor of the owner thereof.

“Person” means any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organization, trust, state or agency of a state (in each case whether or not being a separate legal entity), limited liability company, government or political subdivision or agency or instrumentality thereof, or any other entity or organization.

“Prevailing Exchange Rate” means, with respect to the translation of the price of the shares, the closing rate quoted by the European Central Bank for the purchase of U.S. dollars with Euro on the Trading Day immediately preceding the relevant day.

“Principal Subsidiary” means any consolidated Subsidiary (1) whose revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 10 percent of the consolidated revenues as shown in the latest audited consolidated accounts of the Company or (2) whose total assets, as shown in the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary are at least 10 percent of the consolidated total assets of the Company as shown in the latest audited consolidated accounts of the Company, including any such Subsidiary as may be acquired or formed from time to time during the term of the Bonds; provided, however, for the purposes of calculation of consolidated assets of the Company under (2) only, the interests of the minority stockholders of the Company and of its consolidated Subsidiaries shall be excluded, and “Principal Subsidiaries” means those companies collectively. An Officer’s Certificate delivered to Trustee and Holders stating that in the Company’s opinion, a consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“Qualified Financial Institution” means a financial institution or intermediary of international standing licensed or authorized by the relevant French governmental authorities selected by the Issuer and notified in writing to the Trustee.

“Subsidiary” means, with respect to any Person, any company or other business entity of which that Person owns or controls (either directly or through one or more other Subsidiaries) more than 50 percent of the issued voting share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws of the State of Nevada, regulations or generally accepted accounting principles from time to time, should have its accounts consolidated with those of that person.

“Trading Day” means any day on which the Euronext Paris is open for business.

On any adjustment, the relevant Conversion Price, if not an integral multiple of US\$0.01, shall be rounded up to the nearest US\$0.01. No adjustment shall be made to the Conversion Price where such adjustment (rounded up if applicable) would be less than one percent of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded up, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders, the Trustee and the Conversion Agent in accordance with Section 6.5 (*Notification of adjustments*) as soon as reasonably practicable after the determination thereof.

The Conversion Price may not be reduced so that, on conversion of the Bonds, it would require shares to be issued in any circumstances not permitted by applicable law.

6.5 Notification of adjustments

The Issuer shall within five (5) business days after the occurrence of an event giving rise to any adjustments to the Conversion Price under Section 6.3 (*Adjustments to the Conversion Price*), deliver to the

Trustee a certificate setting out particulars relating to each adjustment of the Conversion Price and specifying the relevant condition under which such adjustment has been made, including the adjusted Conversion Price. The Issuer shall also (i) promptly and in any event within 14 days of such adjustment, notify the Conversion Agent and the Bondholders of such adjustment and (ii) publish any required notices or announcements on the SGX-ST, or Euronext Paris, as applicable. Such notice shall be given to Bondholders in accordance with Section 15 (*Notices*), and shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment. For the avoidance of doubt, and notwithstanding anything else to the contrary set forth in these Sections, no adjustments to the Conversion Price shall become effective until the Trustee provides such written confirmation.

7. PAYMENTS

7.1 Principal, interest and premium

Payment of principal, interest and premium (if any) in respect of the Bonds will be made by transfer to the registered account of the holder of the Bonds. Payment of principal and premium, if any, will only be made after surrender of the relevant Certificate at the specified office of the Paying Agent.

7.2 Registered accounts

For the purposes of this Section 7, a Bondholder's registered account means the U.S. dollar account maintained by or on behalf of such Bondholder with a bank, details of which appear on the Bonds Register at the close of business on the second Payment Business Day before the due date for payment, and a Bondholder's registered address means its address appearing on the Bonds Register at that time.

7.3 Fiscal laws

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Section 9 (*Taxation*). Except as otherwise provided in Section 5.2.2 (*Stamp duty and other expenses*), no commissions or expenses shall be charged to the Bondholders in respect of such payments.

7.4 Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if it is not a Payment Business Day, the immediately following Payment Business Day) or, in the case of a payment of principal, if later, on the Payment Business Day on which the relevant Definitive Certificate is surrendered at the specified office of any of the Agents.

7.5 Payment Business Day

In this Section 7, "Payment Business Day" means a day other than a Saturday or Sunday on which banks are open for business in New York City and Paris and the city in which the specified office of the Principal Paying Agent is located and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Bonds Register with a record of the amount (if any) in fact paid.

8. REDEMPTION, REPURCHASE AND CANCELLATION

8.1 Maturity

Unless previously redeemed, converted or purchased and canceled as provided herein, the Issuer will redeem each Credit Enhanced Bond at 105.11% of its principal amount and each Coupon Bond at 100% of their principal amount plus any accrued and unpaid interest on December 2, 2025 (the "Maturity Date"). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Section 8.2 (*Redemption at the option of the Issuer*) or Section 8.3 (*Redemption for taxation reasons*) below.

8.2 Redemption at the option of the Issuer

- 8.2.1** On or at any time after December 2, 2023 to December 1, 2025 the Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Bondholders and upon reasonable notice in advance of such notice to the Bondholders to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds in whole or in part (at the Issuer's sole discretion) at the Early Redemption Amount as at the date of redemption, provided that no such redemption may be made unless the Closing Price (translated into U.S. Dollars at the Prevailing Exchange Rate) for twenty (20) Trading Days in any period of thirty (30) consecutive Trading Days, the last day of which occurs not more than fifteen (15) Trading Days immediately prior to the date upon which notice of such redemption is given, is at greater than 130% of the Conversion Price. For any event which occurs giving rise to a change in the Conversion Price, appropriate adjustments for the relevant days approved by the Qualified Financial Institution shall be made for the purpose of calculating the Closing Prices of the shares for such days. If the Closing Price of the shares cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed for the purposes of determining the Closing Price of the shares.
- 8.2.2** The Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Bondholders and upon reasonable notice in advance of such notice to the Bondholders to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds in whole or in part (at the Issuer's sole discretion) at the Early Redemption Premium Amount on December 2, 2022 (the "Issuer's Anniversary Call Date").
- 8.2.3** Upon the expiry of any such notice provided in Section 8.2.1 or 8.2.2, as applicable, the Issuer will be bound to redeem the Bonds at the Early Redemption Amount at the date fixed for such redemption.
- 8.2.4** If at any time the aggregate principal amount of the Bonds outstanding is 10% or less of the aggregate principal amount originally issued, the Issuer shall have the option to redeem such outstanding Bonds in whole but not in part at the Early Redemption Amount as of the date of redemption. The Issuer will give at least 30 days' but not more than 60 days' prior notice to the Bondholders for such redemption and reasonable advance notice to the Trustee and the Principal Paying Agent in advance of such notice to the Bondholders.
- 8.2.5** For the avoidance of doubt, holders of the Bonds shall be entitled to exercise the Conversion Rights in respect of Bonds which have been selected by the Issuer for redemption under this Section 8.2 (*Redemption at the option of the Issuer*) until the date falling five Business Days prior to the relevant redemption date. The Conversion Price shall not be subject to any adjustments relating to any redemption or conversion of the Bonds pursuant to this Section 8.2 (*Redemption at the option of the Issuer*).

8.3 Redemption for taxation reasons

- 8.3.1** At any time the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders and upon reasonable notice in advance of such notice to the Bondholders to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem all, but not less than all, of the Bonds at the applicable Early Redemption Amount thereof as of the date of redemption if:
- (i) the Issuer has or will become obliged to pay additional amounts as referred to in Section 9 (*Taxation*) as a result of any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of the Republic of Singapore, France or the United States (or any political subdivision or any authority thereof or therein having power to tax), or any change in the position regarding the application, administration or any new or different interpretation of such laws, treaties, regulations or rulings, which change, amendment, application or interpretation becomes effective on or after the Issue Date; and
 - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available

to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts in respect of the Bonds.

8.3.2 Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee:

- (i) a certificate signed by two directors of the Issuer, stating that the obligation referred to in Section 8.3.1 (i) above cannot be avoided by the Issuer (taking reasonable measures available to it); and
- (ii) an opinion of independent legal or tax advisers of recognized standing in France, the United States or Singapore (as applicable) to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective). The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders.

8.3.3 Upon the expiry of any such notice (such date, the “Tax Redemption Date”), the Issuer will be bound to redeem the Bonds at the Early Redemption Amount as of the date of redemption.

8.3.4 If the Issuer gives a notice of redemption pursuant to Section 8.3.1, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Section 9 (*Taxation*) shall not apply in respect of any payment of principal, interest or premium (if any) to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Section 9 (*Taxation*) and payment of all amounts shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the Republic of Singapore, the United States or France (or any political subdivision) or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the Bonds on or before the close of business on the date seven (7) Business Days prior to the Tax Redemption Date.

8.4 Repurchase of the Bonds at the Option of the Bondholders

8.4.1 The Issuer will, at the option of the holder of any Bond, repurchase all or some of that holder’s Bonds (the “Holder’s Put Right”) (in denominations of US\$200,000 and integral multiples thereof) on December 2, 2023 (the “Holder’s Put Date”) at a repurchase price equal to the applicable Early Redemption Amount as of the Holder’s Put Date (the “Holder’s Put Price”). To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a Put Option Notice, in the forms for the time being current and obtainable during the normal business hours from the specified office of any Paying Agent together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Holder’s Put Date. A Put Option Notice shall not be deemed to be valid unless the Certificate evidencing the Bonds to be repurchased has been attached and the Issuer shall not be obliged (although it may in its absolute discretion elect) to redeem Bonds for which an invalid or incomplete Put Option Notice has been submitted.

8.4.2 A Put Option Notice (as defined below), once delivered, shall be irrevocable and the Issuer shall repurchase the Bonds for which a Put Option Notice has been validly submitted on the Holder’s Put Date.

8.5 Delisting Put Right

In the event that the Shares are not listed or admitted to trading on the Euronext Paris and/or OTCQX, if applicable (a “Delisting”), each Bondholder shall have the right (the “Delisting Put Right”), at such Bondholder’s option, to require the Issuer to repurchase such Bondholder’s Bonds, in whole but not in part (in denominations of US\$200,000 and integral multiples thereof), on the date set by the Company for such repurchase (the “Delisting

Put Date”) , which shall be not less than thirty (30) days nor more than sixty (60) days following the date on which the Company notifies the Holders in writing of the Delisting, at a repurchase price equal to the applicable Early Redemption Amount on the date of repurchase specified in the applicable Put Option Notice (the “Delisting Put Price”). The Trustee shall not be required to take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred or may occur and shall not be liable to any person for any failure to do so.

8.6 Change of Control Put Right

If a Change of Control occurs with respect to the Issuer, each Holder shall have the right (the “Change of Control Put Right”), at such Holder’s option, to require the Company to repurchase such Bondholder’s Bonds, in whole but not in part (in denominations of US\$200,000 and integral multiples thereof) on the date set by the Company for such repurchase (the “Change of Control Put Date”), which shall be not less than 30 nor more than 60 days following the date on which the Company notifies the Trustee, the Paying Agent and the Holders in writing of the Change in Control, at a repurchase price equal to the applicable Early Redemption Amount on the Change of Control Put Date (the “Change of Control Put Price”).

8.7 Repurchase Procedure

8.7.1 Not less than 30 nor more than 60 days prior to the Holder’s Put Date or following the date on which the Issuer notified the Holders, the Trustee and the Paying Agent (where applicable) of a Delisting or a Change of Control, the Issuer shall procure that notice regarding such Holder’s Put Right, Delisting Put Right or Charge of Control Put Right shall be given to Bondholders, the Principal Paying Agent and the Trustee (in accordance with Section 15 (*Notices*)) stating:

- (i) the Holder’s Put Date, the Delisting Put Date or the Change of Control Put Date, as applicable (each, a “Put Date”);
- (ii) in the case of a Delisting, the date of such Delisting and brief details of the events that caused such Delisting;
- (iii) in the case of a Change of Control, the date of such Change of Control and, briefly, the events causing such Change of Control;
- (iv) the date by which the Put Option Notice must be given;
- (v) the Holder’s Put Price, the Delisting Put Price or the Change of Control Put Price and the method by which such amount will be paid;
- (vi) the names and addresses of all Paying Agents;
- (vii) a brief summary of the Conversion Right and the then current Conversion Price;
- (viii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Holder’s Put Right, Delisting Put Right, Change of Control Put Right or Conversion Right; and
- (ix) that a Put Option Notice, once validly given, may not be withdrawn.

8.7.2 To exercise its rights to require the Issuer to purchase its Bonds, the Bondholder must deliver a Put Option Notice (a “Put Option Notice”), in the then current form obtainable during normal business hours from the specified office of any Agent, to any Paying Agent on any Business Day prior to the close of business at the location of such Paying Agent on such day and which day is not less than 10 Business Days prior to the applicable Put Date.

8.7.3 A Put Option Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds specified in such notices on the applicable Put Date.

8.8 Repurchase following exercise of a Put Option

Upon the exercise of any put option specified in this Section 8, payment of the applicable repurchase amount plus any accrued and unpaid interest in the case of Coupon Bonds shall be conditional upon delivery of the relevant Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day (at the place where the Certificate evidencing such Bond is deposited for redemption) together with the delivery of any other document(s) required by these Sections, and will be made promptly following the later of the date set for redemption and the time of delivery of such Certificate. If the Paying Agent holds, on the Put Date, sufficient money to pay the applicable redemption monies for Bonds for which Put Option Notices have been delivered in accordance with the provisions hereof exercising such redemption rights, then, whether or not such Certificate is delivered to the Paying Agent, on and after such Put Date, (i) such Bond will cease to be outstanding, (ii) such Bond will be deemed paid, and (iii) all other rights of the Bondholder shall terminate (other than the right to receive the applicable redemption monies upon delivery of such Certificate).

8.9 Purchases

The Issuer and any of its Affiliates may at any time and from time to time purchase Bonds at any price in the open market or otherwise. Bonds purchased by the Issuer shall not be reissued or resold and shall be canceled upon purchase. The Bonds so acquired, while held by or on behalf of the Issuer, or its Affiliates, shall not entitle the holders thereof to exercise any voting rights with respect to such Bonds.

8.10 Cancellation

All Bonds which are redeemed by the Issuer or converted by Bondholders will forthwith be submitted to the Paying Agent for cancellation. Certificates in respect of all Bonds canceled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

8.11 Redemption, Conversion and Put Option Notices

8.11.1 *Redemption Notice by the Issuer.* All notices to Bondholders given by or on behalf of the Issuer pursuant to this Section will be given in accordance with Section 15 (*Notices*), and specify the Conversion Price as of the date of the relevant notice, the Closing Price of the shares (as quoted on the Euronext Paris as of the latest practicable date prior to the publication of the notice), the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the publication of the notice.

8.11.2 *Conversion and Put Option Notices by the holders of the Bonds.* All notices given by holders of the Bonds relating to any conversion or repurchase of the Bonds will be given in accordance with Section 15 (*Notices*) and shall specify the information required by (i) in the case of conversions of Bonds, under Section 6.2.1 (*Conversion notice*) and (ii) in the case of repurchase at the option of the holder, under Sections 8.4 (*Repurchase of the Bonds at the option of the Bondholders*), 8.5 (*Delisting put right*) and 8.6 (*Change of Control Put right*).

9. TAXATION

All payments of principal, premium (if any), interest or default interest (if any) made by the Issuer will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic of Singapore, the United States or France (or any political subdivision or any authority thereof or therein having power to tax), unless deduction or withholding of such taxes, duties, assessments or governmental charges is required by law. In such event, the Issuer will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required, except that no such additional amount shall be payable in respect of any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Republic of Singapore, the United States or France, as the case may be,

otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond or where the withholding or deduction could be avoided by the holder making a declaration of non-residence or other similar claim for exemption to the appropriate authority which such holder is legally capable and competent of making but fails to do so; or

- (b) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or
- (c) the presentation of such Bond (if presentation is required) for payment in France, unless such Bond could not have been presented for payment elsewhere; or
- (d) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure to comply by the holder or the beneficial owner of the Bond with a request by the Company addressed to the holder to provide information concerning the nationality, residence or identity of the holder or such beneficial owner, or to make any declaration or other similar claim or satisfy any information or reporting requirement that is required or imposed by a statute, treaty, regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or a part of such tax, assessment or other governmental charge; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union; or
- (f) any confirmation of clauses (a) through (e) above.

For the purposes hereof, “relevant date” means the date on which such payment first becomes due except that if the full amount payable has not been received by the Trustee or the Principal Paying Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and payment made.

References in this “Description of the Bonds” to principal, premium (if any), interest and default interest (if any) shall be deemed also to refer to any additional amounts which may be payable under this Section or any undertaking or covenant given in addition thereto or in substitution pursuant to the relevant Indenture.

10. EVENTS OF DEFAULT

If any of the following events (each an “Event of Default”) occurs and is continuing (other than an Event of Default specified in Paragraph (d), (f) or (h) which the Bonds shall *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder), the Trustee may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding shall (subject to being indemnified, prefunded and/or secured by the Bondholders to its satisfaction), give notice to the Issuer that the Bonds are immediately due and repayable at the Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Section 6.1.4 (*Revival and/or survival of Conversion Rights after Default*)) if any of the following events has occurred:

- (a) a default is made in the payment of any principal, premium or interest when due or within a period of 15 Business Days in respect of payment of any other amount in respect of the Bonds after the same shall become due and payable; or
- (b) the Issuer does not perform or comply with one or more of its other obligations under the Bonds or the relevant Indenture which default is incapable of remedy within 30 days after such default occurs; or
- (c) any other present or future indebtedness of the Company or its Principal Subsidiaries for or in respect of moneys borrowed or raised is declared to be due and payable prior to its stated maturity by reason of (i) any actual default or event of default (howsoever described), or (ii) any such indebtedness is not paid when due, following any applicable grace period, or (iii) the Company or any of its Principal Subsidiaries fails to pay when due, following any applicable

grace period, any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred or is continuing equals or exceeds US\$1 million or the Dollar Equivalent thereof; or

- (d) an encumbrancer takes possession or an administrative or other receiver, manager or other similar officer is appointed of the whole or any substantial part of the property, assets or revenues of the Issuer, or any of the Principal Subsidiaries (as the case may be) and is not discharged within 60 days; or
- (e) the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of the Principal Subsidiaries, which is material to the Issuer and the Principal Subsidiaries taken as a whole; or
- (f) the Company or any of its Principal Subsidiaries is (or is, or would be, deemed by applicable law or a court of competent jurisdiction to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens in writing to stop or suspend, payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of any material part which it will or would otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any material part of the debts of the Company or its Principal Subsidiaries; or
- (g) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Company, or any of its Principal Subsidiaries is material to the Company and its Principal Subsidiaries as a whole, and is not discharged or stayed within 45 days; or
- (h) an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Company or any of its Principal Subsidiaries, or the Company, or any of its Principal Subsidiaries ceases or threatens in writing to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation on terms approved by a majority in principal amount of the Bonds then outstanding; or
- (i) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Bonds or the relevant Indenture thereof; or
- (j) any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the foregoing paragraphs.

The Trustee and the Agents shall not be required to take any steps to ascertain whether an Event of Default or any event which could lead to the occurrence of an Event of Default has occurred and shall be entitled to assume that no such event has occurred until they have received written notice to the contrary from the Issuer.

11. CERTAIN COVENANTS

11.1 Negative Pledge

So long as any Bond remains outstanding, the Company shall not, and shall ensure that none of its Principal Subsidiaries will, create or permit to subsist any Lien on the whole or any part of its or, as the case may be, such Principal Subsidiary's property, assets or revenues, present or future, to secure for the benefit of the holders of any securities (i) payment of any sum owing with respect to any such securities, (ii) any payment under any guarantee of any such securities or (iii) any payment under any indemnity or other like obligation relating to any such securities, unless contemporaneously therewith effective provision is made to secure the Bonds (a) equally and ratably with such securities, guarantee, indemnity or obligation with a similar Lien on the same property, assets or revenues securing such securities, guarantee, indemnity or obligation for so long as such

securities, guarantee, indemnity or obligation are secured by such Lien or (b) with such other security as shall be approved by Bondholders holding not less than 50% of the principal amount of the outstanding Bonds.

11.2 Merger

The Company shall not consolidate with, or merge or amalgamate into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to any Person other than any consolidation, merger, amalgamation, sale, assignment, transfer, lease, conveyance or other disposal which results in the Company being the surviving party (the consummation of any such event, a “Merger”), unless:

- (a) the Company shall have notified the Bondholders of such event in accordance with the notice provisions of the relevant Indenture as described below under Section 15 (*Notices*);
- (b) the corporation formed by such Merger or the Person that acquired such properties and assets shall expressly assume, by an indenture supplemental to the relevant Indenture, all obligations of the Company under the relevant Indenture and the performance of every covenant and agreement applicable to it contained therein;
- (c) immediately after giving effect to any such Merger, no Default or Event of Default shall have occurred or be continuing or would result thereof; and
- (d) the corporation formed by such Merger, or the Person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each Bondholder against any taxes payable by withholding or deduction thereafter imposed on such Bondholder solely as a consequence of such Merger with respect to any payment on the Bonds.

12. ENFORCEMENT

At any time after any series of the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the relevant Indenture, but it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of not less than 25% in aggregate principal amount of the relevant Bonds then outstanding and (b) it shall have been indemnified, prefunded and/or provided with security by the relevant Bondholder to its satisfaction. No Bondholder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

13. MEETINGS OF BONDHOLDERS, WAIVERS AND SUBSTITUTIONS

13.1 Meetings

Each Indenture contains provisions for convening meetings of the Bondholders to consider any matter affecting their interest, including the approval of certain amendments or modifications of the Bonds or the provisions of the relevant Indenture upon either the written consent of the Bondholders of a majority in principal amount of the outstanding Bonds or by majority approval at a meeting of the Bondholders by Persons entitled to vote a majority in principal amount of outstanding Bonds, subject to those matters set out in Section 13.2 (*Modification and Waiver*) below. The quorum at any meeting shall be two or more persons entitled to vote a majority in principal amount of the outstanding Bonds or at an adjourned meeting, two or more persons entitled to vote 25% in principal amount of the outstanding Bonds. Notice of a meeting of Bondholders shall be sent to the Trustee, the Bondholders, and the Company, and publication of the notice of the meeting in English shall be made in accordance with the provisions of the relevant Indenture.

13.2 Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (a) the waiver or authorization of any breach or proposed breach by the Issuer of the Bonds, the relevant Agency Agreement or the relevant Indenture or determine that the occurrence of any Event of Default shall not be treated as such, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (b) any modification to these Sections

or the relevant Indenture which, in the Trustee's opinion, is of a formal, minor or technical nature or is made to correct a manifest error or is not materially prejudicial to the interests of the Bondholders or to comply with mandatory provisions of law.

Modifications and amendments of the relevant Indenture or the relevant series of the Bonds may be made pursuant to a written agreement by the Company and the Trustee with the written consent of a majority in aggregate principal amount of the relevant outstanding Bonds *provided* that no such modification, amendment or waiver may be made, without the written consent of seventy-five percent (75%) in aggregate principal amount of the relevant outstanding Bonds, to:

- (a) change the Maturity Date of the principal of any Bond or modify the due date for any payment in respect of the Bonds (including, without limitation, the dates on which interest is payable in respect of the Bonds);
- (b) reduce the principal and repurchase and redemption price of any Bond or increase the Conversion Price (as adjusted in accordance with the provisions of the relevant Indenture);
- (c) change the place or currency of payment and repurchase and redemption price of any Bond or the method of calculating any such payment;
- (d) in the case of Credit Enhanced Bonds, modify any rights under Bank Guarantee;
- (e) impair the right to institute suit for the enforcement of any payment on or after the Maturity Date (or, in the case of a redemption or repurchase, on or after the relevant redemption date or the Holders' Put Date) of any Bond;
- (f) alter the obligations of the Company under Section 11.1 (*Negative Pledge*) and Section 11.2 (*Merger*);
- (g) modify, cancel or adversely affect the Conversion Right or Holders' Put Right or Delisting Put Right or Change of Control Put Right;
- (h) reduce the above-stated percentage of outstanding Bonds the consent of whose Bondholders is necessary to modify or amend the relevant Indenture;
- (i) reduce the percentage or aggregate principal of outstanding Bonds, the consent of whose Bondholders is necessary for waiver of compliance with certain provisions of the relevant Indenture or for waiver of certain Default or Events of Default;
- (j) modify any of the percentage voting and quorum provisions described under Section 13 (*Meetings of Bondholders, Waivers and Substitutions*); or
- (k) release the Company from any obligation under the relevant Indenture other than in accordance with the provisions of the relevant Indenture, or amend or modify any provision relating to such release.

13.3 Substitution

Each Indenture contains provisions permitting the Trustee to agree, subject to amendment of the relevant Indenture and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the relevant Indenture and the relevant series of the Bonds. In such event, the Issuer shall give notice to relevant Bondholders in accordance with Section 15 (*Notices*).

13.4 Interests of Bondholders

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorization, waiver or substitution) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders,

and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Section 17 (*Indemnification*) and/or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the relevant Indenture. Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Sections or the relevant Indenture may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in absence of manifest error, be conclusive and binding on all parties) notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Issuer in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof.

14. REPLACEMENT OF CERTIFICATES

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. NOTICES

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Bonds Register or published in a leading newspaper having general circulation in Asia (which is expected to be the Wall Street Journal Asia). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

Whenever a notice is to be given to the Trustee pursuant to the relevant series of the Bonds or the relevant Indenture, such notice will be deemed validly given (except otherwise expressly provided) if it is made in writing in English and mailed by first-class mail or airmail to the Trustee at the corporate trust office of the Trustee and in accordance with the terms of the relevant Indenture.

So long as the Global Certificate is held on behalf of Euroclear or Clearstream, notices to holders of Bonds represented by this Global Certificate may be given by delivery of the relevant notice to Euroclear and Clearstream.

16. AGENTS

The names of the initial Agents and the Registrar and their specified offices are set out in the inner back cover page. The Issuer reserves the right, subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed), at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (a) a Principal Paying Agent and (b) a Registrar. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Paying Agent will be given by the Principal Paying Agent to the Bondholders and the Trustee in accordance with Section 15 (*Notices*) and in any event not less than 30 days' notice will be given.

17. INDEMNIFICATION

Each Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified, secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer without accounting for any profit. Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purpose of these Sections or the relevant Indenture may be relied upon by the Trustee as sufficient evidence of the facts therein and shall, in absence of manifest error, be conclusive and binding on all parties notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Issuer in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof, and the Trustee shall not be responsible for any loss occasioned by acting on any such certificate or report. The Trustee shall be obliged to accept and entitled to rely on, without investigating the accuracy, authority, and validity, any report of auditors, financial advisers or Qualified Financial Institutions where such report is provided

pursuant to, and in compliance with, these Sections and delivery will not constitute actual or constructive knowledge or notice by the Trustee of the contents. Where the Issuer procures the delivery of the same pursuant to its obligations to do so under these Sections and such report shall be binding on the Issuer, the Trustee and the holders of the Bonds in the absence of manifest error.

Whenever in this Description of the Bonds, the Indentures, the Agency Agreements or by law, the Trustee shall have discretion or permissive power it may decline to exercise the same in the absence of approval by the Holders and need not exercise the same unless it has been indemnified and/or provided with security and/or pre-funded to its satisfaction against all actions, proceedings, claims, actions or demands to which it may render itself liable and all costs, damages, charges, expenses and liabilities which it may incur by so doing.

18. GOVERNING LAW

The Bonds, the Indentures and the Agency Agreements are governed by, and shall be construed in accordance with, the laws of the State of New York. In relation to any legal action or proceedings arising out of or in connection with the relevant Indenture or the Bonds, the Issuer will in the Indentures irrevocably submit to the non-exclusive jurisdiction of the courts of the United States of America and of the State of New York, in each case in the Borough of Manhattan in The City of New York, County and State of New York, United States of America and in relation thereto has appointed Law Debenture Corporate Services Limited currently located at 801 2nd Avenue, Suite 403, New York, New York 10017, U.S.A., as its agent for service of process in New York.

19. WAIVER OF JURY TRIAL

By accepting the Bonds, the Issuer and each Holder shall be deemed to have consented to waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceedings relating to the Bonds.

20. DISCLOSURE OBLIGATIONS

The Issuer will have certain disclosure obligations and reporting obligations under U.S. law if the person to be registered as a stockholder upon conversion of any Bond.

Under U.S. law, if the person to be registered as a stockholder upon the conversion of any Bond becomes, as a result of such conversion, the beneficial owner of more than 5% of the Company's Common Stock, the name and address of such person will have to be disclosed in the Company's periodic filings with the SEC, and if such person is an entity, the name of that entity's ultimate control person will have to be disclosed as well. Additionally, such person will be required to file with the SEC a Schedule 13G reporting such person's ownership in the Common Stock of the Company.

Due to these obligations, the Issuer may ask the converting Holders to disclose the name and nationality of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it will convert the Bonds. The conversion of Bonds may be delayed until the Issuer receives the requested information in writing and satisfactory evidence of the compliance with all laws and regulations by the Holders. The information the Holder is required to provide may include the name and nationality of the person to be registered as shareholder and the total number of Bonds such person is converting or has converted in the past.

Reports

The Indentures provide that any documents or reports that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act (excluding any such information, documents or reports, or portions thereof, subject to confidential treatment and any correspondence with the SEC) are required to be filed by us with the Trustee within 15 days after the same are required to be filed with the SEC (giving effect to any grace period provided by Rule 12b-25 or any successor rule under the Exchange Act). Documents filed by the Issuer with the SEC via the EDGAR system (or any successor thereto) shall be deemed to be filed with the Trustee as of the time such documents are filed via EDGAR (though the Trustee shall have no obligation to determine whether such documents have been filed via EDGAR).

Transfer Restrictions

The Bonds and the Conversion Shares have not been, and will not be registered in the in the United States under the Securities Act. Accordingly, transfer of the Bonds and the Conversion Shares is and will be restricted in the United States. See “*Plan of Distribution*” and “*Transfer Restrictions*”.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN THE GLOBAL CERTIFICATE

The Global Certificates contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Description of the Bonds set out in the Offering Memorandum. The following is a summary of certain of those provisions. Terms used in this section and not otherwise defined shall have the meanings given to them in “Description of the Bonds.”

Each series of Bonds will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Global Certificates

The Global Certificates will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream (the “Common Depositary”). Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by the Global Certificates. Such accounts will be designated initially by or on behalf of the Initial Purchaser. Ownership of beneficial interests in the Global Certificates will be limited to persons who have accounts with Euroclear or Clearstream, or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons with beneficial interests in the Global Certificates other than such account holders).

Payments of the principal of, any premium and interest (if any) on, the Global Certificates will be made to the Common Depositary or its nominee as the registered owner thereof. None of the Issuer (other than in the case of its gross negligence or wilful misconduct), the Trustee, the Common Depositary for the Bonds, its nominee, the Paying Agent, Conversion Agent, Transfer Agent or Registrar will have any responsibility or liability, for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Certificate or for any notice permitted or required to be given to holders of Bonds or any consent given or actions taken by such registered holders of Bonds. We expect that upon receipt of any payment of principal, premium or interest (if any) with respect to the Global Certificates representing any Bonds, the Common Depositary or its nominee will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the amount of the principal or the premium of the Global Certificate as shown on its records.

Transfers between account holders in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

The laws of certain jurisdictions require that certain purchasers of Bonds take physical delivery of such Bonds in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Certificates may be limited by such laws.

Conversion through participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures including but not limited to using a non US broker or custodian to facilitate the delivery of Conversion Shares by Euroclear.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificates among participants and account holders of Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee, the Common Depositary, the Paying Agent, Conversion Agent, any Transfer Agent, any Registrar or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Each of Euroclear and Clearstream holds Bonds for participating organizations and facilitates the clearance and settlement of Note transactions between its respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing

corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Individual Definitive Certificates

If (i) the Common Depositary or any successor to the Common Depositary notifies us in writing at any time that it is unwilling or unable to continue as a depositary and a successor depositary is not appointed by us within ninety (90) days after delivery of such notice, or (ii) either Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of fourteen (14) days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (iii) an Event of Default under the Bonds or the relevant Indenture has occurred and the Bonds have become immediately due and payable, we will issue individual definitive Bonds in registered form in exchange for the relevant Global Certificate. Upon receipt of such notice from the Common Depositary, Euroclear, Clearstream or the Trustee, as the case may be, we will make arrangements for the exchange of interests in the relevant Global Certificate for individual definitive Bonds and cause the requested individual definitive Bonds to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to the Bondholders. Persons exchanging interests in the relevant Global Certificate for individual definitive Bonds will be required to provide to the Registrar, through the relevant clearing system, written instructions and other information required by us and the Registrar to complete, execute and deliver such individual definitive Bonds. Individual definitive Bonds delivered in exchange for the relevant Global Certificate or beneficial interests therein will be registered in the names requested, and issued in any denominations approved, by the relevant clearing system.

DESCRIPTION OF OUR SHARE CAPITAL

The following is a summary of the rights of our Common Stock and preferred stock and certain provisions of our restated articles of incorporation (“Articles of Incorporation”) and our amended and restated bylaws (“Bylaws”). The summaries do not purport to be complete and are qualified in their entirety by reference to the full Articles of Incorporation and Bylaws.

We are a corporation incorporated under the law of the State of Nevada, and our affairs are governed by our Articles of Incorporation, Bylaws, and the Nevada Revised Statutes. As of the date of this Offering Memorandum, our authorized consists of 90,000,000 shares of Common Stock (ISIN: US00774B2088), par value \$0.001 per share, and 50,000,000 shares of “blank check” preferred stock, par value \$0.001 per share. As of the date of this Offering Memorandum, there were 9,540,891 shares of Common Stock and no shares of preferred stock issued and outstanding. All of our currently issued and outstanding shares of capital stock were validly issued, fully paid and non-assessable under the Nevada Revised Statutes. All of the shares of Common Stock to be issued on conversion of the Bonds will be issued as fully paid.

Common Stock

The holders of our Common Stock are entitled to one vote per share on each matter submitted to a vote at a meeting of our stockholders, except to the extent that the voting rights of our shares of any class or series of stock are determined and specified as greater or lesser than one vote per share in the manner provided by our restated articles of incorporation. Our stockholders have no pre-emptive rights to acquire additional shares of our Common Stock or other securities. Our Common Stock is not subject to redemption rights and carries no subscription or conversion rights. In the event of liquidation of our company, the shares of our Common Stock are entitled to share equally in corporate assets after satisfaction of all liabilities. All shares of our Common Stock now outstanding are fully paid and non-assessable. Our Bylaws authorize the board of directors to declare dividends on our outstanding shares.

Preferred Stock

Our board of directors is authorized to determine and alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of preferred shares, and to fix the number of shares and the designation of any series of preferred shares. Our board of directors may increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series subsequent to the issue of those shares. The rights of the holders of Common Stock will be subject to and may be affected adversely by the rights of the holders of any preferred stock that may be issued in the future. Issuance of a new series of preferred stock could make it more difficult for a third party to acquire, or discourage a third party from acquiring, the outstanding shares of Common Stock and make removal of our board of directors more difficult. No rights, preferences or privileges have yet been determined and no shares of preferred stock have been issued.

Warrants

We have issued to the underwriter in our prior public offering, warrants to purchase up to a total of up to 77,680 shares of our Common Stock (equal to 6.0% of the aggregate amount of securities sold in that offering). The warrants are exercisable at any time, and from time to time, in whole or in part, until May 7, 2023. The warrants are exercisable at a per share price equal to 125% of the public offering price per share in our prior offering, or \$53.125. The exercise price and number of shares issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a stock dividend, subdivision, combination, reclassification, merger or consolidation. However, the warrant exercise price or underlying shares will not be adjusted for issuances of shares of Common Stock at a price below the warrant exercise price.

Anti-Takeover Provisions

Provisions of the Nevada Revised Statutes and our Bylaws could have the effect of delaying or preventing a third-party from acquiring us, even if the acquisition would benefit our stockholders. Such provisions of the Nevada Revised Statutes and our Bylaws are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control of our company. These provisions are designed to reduce our vulnerability to an unsolicited proposal for a takeover that does not

contemplate the acquisition of all of our outstanding shares, or an unsolicited proposal for the restructuring or sale of all or part of our company.

Nevada Anti-Takeover Statutes

We have elected not to be governed by the terms and provisions of Nevada's control share acquisition laws (Nevada Revised Statutes 78.378 - 78.3793), which prohibit an acquirer, under certain circumstances, from voting shares of a corporation's stock after crossing specific threshold ownership percentages, unless the acquirer obtains the approval of the issuing corporation's stockholders. The first such threshold is the acquisition of at least one-fifth but less than one-third of the outstanding voting power.

We have also elected not to be governed by the terms and provisions of Nevada's combination with interested stockholders statute (Nevada Revised Statutes 78.411 - 78.444) which prohibits an "interested stockholder" from entering into a "combination" with the corporation, unless certain conditions are met. An "interested stockholder" is a person who, together with affiliates and associates, beneficially owns (or within the prior three years, did beneficially own) 10 percent or more of the corporation's voting stock, or otherwise has the ability to influence or control such corporation's management or policies.

Bylaws

In addition, various provisions of our Bylaws may also have an anti-takeover effect. These provisions may delay, defer or prevent a tender offer or takeover attempt of the company that a stockholder might consider in his or her best interest, including attempts that might result in a premium over the market price for the shares held by our stockholders. Our Bylaws may be adopted, amended or repealed by the affirmative vote of the holders of at least a majority of our outstanding shares of capital stock entitled to vote for the election of directors, and except as provided by Nevada law, our board of directors shall have the power to adopt, amend or repeal the Bylaws by a vote of not less than a majority of our directors. Any Bylaw provision adopted by the board of directors may be amended or repealed by the holders of a majority of the outstanding shares of capital stock entitled to vote for the election of directors. Our Bylaws also contain limitations as to who may call special meetings as well as require advance notice of stockholder matters to be brought at a meeting. Additionally, our amended and restated bylaws also provide that no director may be removed by less than a two-thirds vote of the issued and outstanding shares entitled to vote on the removal.

Authorized but Unissued Shares

Our authorized but unissued shares of Common Stock are available for our board of directors to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes, including raising additional capital, corporate acquisitions and employee stock plans. The existence of our authorized but unissued shares of Common Stock could render it more difficult or discourage an attempt to obtain control of the company by means of a proxy contest, tender offer, merger or other transaction since our board of directors can issue large amounts of capital stock as part of a defense to a take-over challenge. In addition, we have authorized in our Articles of Incorporation 50,000,000 shares of preferred stock, none of which are currently designated or outstanding. However, the board acting alone and without approval of our stockholders can designate and issue one or more series of preferred stock containing super-voting provisions, enhanced economic rights, rights to elect directors, or other dilutive features, that could be utilized as part of a defense to a take-over challenge.

Supermajority Voting Provisions

Nevada Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's articles of incorporation or bylaws, unless a corporation's articles of incorporation or bylaws, as the case may be, require a greater percentage. Although our Articles of Incorporation and Bylaws do not currently provide for such a supermajority vote on any matters, our board of directors can amend our Bylaws and we can, with the approval of our stockholders, amend our Articles of Incorporation to provide for such a super-majority voting provision.

TAXATION

We are incorporated in the State of Nevada. Our Common Stock is quoted for trading on the OTCQX Best Market under the symbol “AKOM” and on the Euronext Paris under the symbol “AKOM” denominated in Euros on Euronext Paris. The following is a summary of U.S. federal tax considerations of an investment in the Bonds and our Common Stock based upon laws and relevant interpretations thereof as of the date of this Offering Memorandum, all of which are subject to change. The discussion is a general summary of the present law, which is subject to prospective and retroactive change and does not deal with all possible tax considerations relating to an investment in the Bonds or our Common Stock, such as the tax considerations under state, local and other tax laws. It is not intended as tax advice and does not consider any investor’s particular circumstances. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Material U.S. Federal Tax Considerations for Non-U.S. Holders of Our Bonds

The following is a summary of the material U.S. federal income and estate tax consequences of the ownership and disposition of the Bonds that are being issued pursuant to this offering. This summary is limited to Non-U.S. Holders (as defined below) that hold the Bonds as a capital asset (generally, property held for investment) for U.S. federal income tax purposes. This summary does not discuss all of the aspects of U.S. federal income and estate taxation that may be relevant to a Non-U.S. Holder in light of the Non-U.S. Holder’s particular investment or other circumstances. Accordingly, all prospective Non-U.S. Holders should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the ownership and disposition of our Bonds.

This summary is based on provisions of United States Internal Revenue Code of 1986, as amended (the “Code”), applicable U.S. Treasury regulations and administrative and judicial interpretations, all as in effect or in existence on the date of this Offering Memorandum. Subsequent developments in U.S. federal income or estate tax law, including changes in law or differing interpretations, which may be applied retroactively, could alter the U.S. federal income and estate tax consequences of owning and disposing of the Bonds as described in this summary. There can be no assurance that the Internal Revenue Service, or IRS, will not take a contrary position with respect to one or more of the tax consequences described herein and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. federal income or estate tax consequences of the ownership or disposition of the Bonds.

As used in this summary, the term “Non-U.S. Holder” means a beneficial owner of the Bonds that is not, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an entity or arrangement treated as a partnership;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust, if (1) a U.S. court is able to exercise primary supervision over the trust’s administration and one or more “United States persons” (within the meaning of the Code) has the authority to control all of the trust’s substantial decisions, or (2) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Bonds, the tax treatment of a partner in such a partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partnerships, and partners in partnerships, that hold the Bonds should consult their own tax advisors as to the particular U.S. federal income and estate tax consequences of owning and disposing of the Bonds that are applicable to them.

This summary does not consider any specific facts or circumstances that may apply to a Non-U.S. Holder and does not address any special tax rules that may apply to particular Non-U.S. Holders, such as:

- a Non-U.S. Holder that is a bank or other financial institution, insurance company, tax-exempt organization, pension plan, broker, dealer or trader in stocks, securities or currencies, U.S. expatriate, controlled foreign corporation or passive foreign investment company;
- a Non-U.S. Holder holding the Bonds as part of a conversion, constructive sale, wash sale or other integrated transaction or a hedge, straddle or synthetic security;
- a Non-U.S. Holder that holds or receives the Bonds pursuant to the exercise of any employee option or otherwise as compensation; or
- a Non-U.S. Holder that at any time owns, directly, indirectly or constructively, 5% or more of our outstanding common stock.

In addition, this summary does not address any U.S. state or local, or non-U.S. or other tax consequences, or any U.S. federal income or estate tax consequences for beneficial owners of a Non-U.S. Holder, including stockholders of a controlled foreign corporation or passive foreign investment company that holds the Bonds.

Each Non-U.S. Holder should consult its own tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of owning and disposing of the Bonds.

Treatment of the Bonds under U.S. Federal Income Tax Principles

For U.S. federal income tax purposes, the Bonds should be treated as debt instruments with interest payments treated as U.S. source interest income to the Holder. The convertible feature of the Bonds should not generally affect the treatment of the Bonds for U.S. federal income tax purposes. Because the zero-coupon Bonds will not pay “adequate stated interest,” on a current basis they will be deemed to be issued with “original issue discount” (the difference between the issue price of the Bonds and their stated redemption value at maturity), which has to be accrued over the expected life of the Bonds at a constant rate and recognized for tax purposes as though it were received currently.

Subject to some exceptions, original issue discount (as well as “market discount” that may arise on a secondary sale or exchange of the Bonds) is treated in a manner similar to interest. Because the issuer of the Bonds is a U.S. corporation, original issue discount (and market discount) will be treated as U.S. source income to the Holder.

The Holder’s adjusted basis in the Bonds will generally be the original cost paid (including the costs of acquisition) increased by amounts accrued as original issue discount or market discount. Upon conversion of the Bonds into shares of our common stock, the Holder would receive a carryover basis equal to its adjusted basis in the Bonds immediately prior to the conversion (plus any related costs of conversion), and there would be no further accrual of original issue discount or market discount.

Payments on Our Bonds

Payments of interest on the Bonds, including payments of original issue discount, that are not effectively connected with a Non-U.S. Holder’s conduct of a trade or business in the United States will generally not be subject to U.S. federal income tax on the basis that the Bonds are being issued in registered form (i.e., they are not bearer bonds and title may only be transferred through a register maintained by the Company) and that interest and original issue discount on such bonds are treated as “portfolio interest,” which is exempt from U.S. federal income tax. U.S. withholding tax will not apply provided that the Non-U.S. Holder timely supplies to the applicable withholding agent a properly executed Form W-8BEN or W-BEN-E (or other applicable form) stating that the holder is not a U.S. person and is eligible for the portfolio interest exemption.

Payment of interest on the Bonds, including payments of original issue discount, that are effectively connected with a Non-U.S. Holder’s conduct of a trade or business in the United States will be taxed on a net income basis at the regular graduated rates and in the manner applicable to United States persons. An exception may apply if the Non-U.S. Holder is eligible for, and properly claims, the benefit of an applicable income tax

treaty and interest is not attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States. In such case, the Non-U.S. Holder may be eligible for a lower rate under an applicable income tax treaty between the United States and its jurisdiction of tax residence. Interest that is effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States will not be subject to the U.S. withholding tax if the Non-U.S. Holder provides to the applicable withholding agent a properly executed IRS Form W-8ECI (or other applicable form) in accordance with the applicable certification and disclosure requirements.

A Non-U.S. Holder treated as a corporation for U.S. federal income tax purposes may also be subject to a "branch profits tax" at a 30% rate (unless the Non-U.S. Holder is eligible for a lower rate under an applicable income tax treaty) on the Non-U.S. Holder's earnings and profits (attributable to interest on the Bonds or otherwise) that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States. The amount of taxable earnings and profits is generally reduced by amounts reinvested in the operations of the U.S. trade or business and increased by any decline in its equity.

The certifications described above must be provided to the applicable withholding agent prior to the payment of interest or original issue discount and must be updated periodically. A Non-U.S. Holder may obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for a refund with the IRS. Non-U.S. Holders should consult their own tax advisors regarding their eligibility for benefits under a relevant income tax treaty and the manner of claiming such benefits.

The foregoing discussion is subject to the discussions below under "*Backup Withholding and Information Reporting*" and "*FATCA Withholding*."

Dispositions of Our Bonds

A Non-U.S. Holder generally will not be subject to U.S. federal income tax (including U.S. withholding tax) on gain recognized on any sale or other disposition of the Bonds unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States); in this case, the gain will be subject to U.S. federal income tax on a net income basis at the regular graduated rates and in the manner applicable to United States persons (unless an applicable income tax treaty provides otherwise) and, if the Non-U.S. Holder is treated as a corporation for U.S. federal income tax purposes, the "branch profits tax" described above may also apply; or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; in this case, except as otherwise provided by an applicable income tax treaty, the gain, which may be offset by certain U.S. source capital losses, generally will be subject to a flat 30% U.S. federal income tax, even if the Non-U.S. Holder is not treated as a resident of the United States under the Code; The foregoing discussion is subject to the discussions below under "*Backup Withholding and Information Reporting*" and "*FATCA Withholding*."

Federal Estate Tax

Any of our Bonds that are owned (or treated as owned) by an individual who is not a U.S. citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise and, therefore, may be subject to U.S. federal estate tax.

Backup Withholding and Information Reporting

Backup withholding (currently at a rate of 24%) will not apply to payments of interest or original issue discount on the Bonds to a Non-U.S. Holder if the Non-U.S. Holder provides to the applicable withholding agent a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form) certifying under penalties of perjury that the Non-U.S. Holder is not a United States person or is otherwise entitled to an exemption. However, the applicable withholding agent generally will be required to report to the IRS (and to such Non-U.S. Holder) payments of interest or original issue discount on the Bonds and the amount of U.S. federal income tax, if any,

withheld from those payments. In accordance with applicable treaties or agreements, the IRS may provide copies of such information returns to the tax authorities in the country in which the Non-U.S. Holder resides.

The gross proceeds from sales or other dispositions of the Bonds may be subject, in certain circumstances discussed below, to U.S. backup withholding and information reporting. If a Non-U.S. Holder sells or otherwise disposes of the Bonds outside the United States through a non-U.S. office of a non-U.S. broker and the disposition proceeds are paid to the Non-U.S. Holder outside the United States, then the U.S. backup withholding and information reporting requirements generally will not apply to that payment. However, U.S. information reporting, but not U.S. backup withholding, will apply to a payment of disposition proceeds, even if that payment is made outside the United States, if a Non-U.S. Holder sells the Bonds through a non-U.S. office of a broker that is a United States person or has certain enumerated connections with the United States, unless the broker has documentary evidence in its files that the Non-U.S. Holder is not a United States person and certain other conditions are met or the Non-U.S. Holder otherwise qualifies for an exemption.

If a Non-U.S. Holder receives payments of the proceeds of a disposition of the Bonds to or through a U.S. office of a broker, the payment will be subject to both U.S. backup withholding and information reporting unless the Non-U.S. Holder provides to the broker a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form) certifying under penalties of perjury that the Non-U.S. Holder is not a United States person, or the Non-U.S. Holder otherwise qualifies for an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be credited against the Non-U.S. Holder's U.S. federal income tax liability (which may result in the Non-U.S. Holder being entitled to a refund), provided that the required information is timely furnished to the IRS.

FATCA Withholding

The Foreign Account Tax Compliance Act and related Treasury guidance (commonly referred to as FATCA) impose U.S. federal withholding tax at a rate of 30% on payments to certain foreign entities of (i) U.S.-source interest (including interest and original issue discount paid on the Bonds) and (ii) the gross proceeds from the sale or other disposition after December 31, 2018, of property that produces U.S.-source interest (including sales or other dispositions of the Bonds). This withholding tax applies to a foreign entity, whether acting as a beneficial owner or an intermediary, unless such foreign entity complies with (i) certain information reporting requirements regarding its U.S. account holders and its U.S. owners and (ii) certain withholding obligations regarding certain payments to its account holders and certain other persons. Accordingly, the entity through which a Non-U.S. Holder holds the Company's Bonds will affect the determination of whether such withholding is required. Non-U.S. Holders are encouraged to consult their tax advisors regarding FATCA.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated November 27, 2020 (the “Purchase Agreement”), Initial Purchaser has agreed with us to purchase the Bonds in the aggregate principal amount of US\$10,200,000.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the shares to be issued upon conversion of the Bonds, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us, the Bonds or the shares to be issued upon conversion of the Bonds, in any jurisdiction where action for the purpose is required. Accordingly, neither the Bonds nor any shares to be issued upon conversion of the Bonds may be offered or sold directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Bonds or the shares to be issued upon conversion of the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Bonds are a new issue of securities with no established trading market. The Initial Purchaser is not obligated to make a market in the Bonds and any such market making may be discontinued at any time at the sole discretion of the Initial Purchaser. Accordingly, the Issuer cannot assure the liquidity of, or trading market for, the Bonds. A liquid or active public trading market for the Bonds may not develop. If an active trading market for the Bonds does not develop, the market price and liquidity of the Bonds may be adversely affected.

If the Bonds are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities and other factors.

Neither the Issuer nor the Initial Purchaser make any representation or prediction as to the direction or magnitude of any effect that the transaction described above may have on the price of the Bonds. In addition, neither the Issuer nor the Initial Purchaser makes any representation that the Initial Purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Initial Purchaser and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer. They have received customary fees and commissions for these transactions.

Republic of China

The Bonds may not be offered or sold directly or indirectly in the ROC, or to, or for the account or benefit of, any ROC person unless otherwise conducted in compliance with the applicable laws and regulations of the ROC.

United States

The Bonds and the shares issuable upon conversion of the Bonds have not been offered in the U.S. and will not be registered under the Securities Act and may not be offered or sold in the U.S. except in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold by the Initial Purchaser only outside the U.S. in offshore transactions in reliance upon Regulation S.

The Initial Purchaser has agreed that, except as permitted by the Purchase Agreement, it has not offered or sold, and will not offer or sell the Bonds as part of its distribution at any time within the U.S. unless such distribution is allowed under Regulation S or another available exemption.

In addition, an offer or sale of Bonds within the U.S. by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

European Union

In relation to each Member State of the European Union which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), no person has made and no person will make an offer of the Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of Bonds to the public may be made in that Relevant Member State at any time:

- (a) to qualified investors (as defined in the Prospectus Directive);
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (c) in any other circumstances which do not require the publication by the Issuer of a prospectus in that Relevant Member State pursuant to Article 3 of the Prospectus Directive as implemented in that Relevant Member State, or a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive as implemented in that Relevant Member State.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to the Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

The Initial Purchaser has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in the United Kingdom in relation to the Bonds.

Singapore

The Initial Purchaser has acknowledged that this Offering Memorandum has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore (“MAS”). Accordingly, the Initial Purchaser has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than:

- (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA;

- (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018; or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than:

- (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA;
- (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018; or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2 (1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

A reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Hong Kong

The Bonds and the Conversion Shares represented thereby may not be offered or sold in Hong Kong by means of any document other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and no advertisement, invitation or document relating to the securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the SFO and any rules made thereunder.

Japan

The Initial Purchaser has represented and agreed that the Bonds have not and will not be registered under the Financial Instruments and Exchange Act of Japan and that the Bonds which it subscribes will be subscribed by it as principal and that, in connection with the initial offering of the Bonds, it will not, directly or indirectly, offer or sell any Bonds in Japan, or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act of Japan and other applicable laws and regulations of Japan.

PRC

This offering memorandum is not intended to constitute a public offer of the Bonds, whether by way of sale or subscription, in the PRC. The Bonds are not an offer of securities within the meaning of the Securities Law of PRC or other pertinent laws and regulations of the PRC. The Bonds are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC other than to QDIIs in the PRC. Pursuant to the Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors, with the exception of QDIIs in the PRC, the Bonds may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult your legal advisor prior to making any offer, resale, pledge or other transfer of the Bonds offered and sold in reliance on Regulation S, or the shares issuable upon conversion of the Bonds. Terms used in this section are defined in Regulation S under the Securities Act.

The Bonds, and the shares issuable upon conversion of the Bonds, have not been offered in the U.S. and will not be registered under the Securities Act. During the six months after the Closing Date (the “Distribution Compliance Period”) the Bonds, and the shares issuable upon conversion of the Bonds may not be offered or sold in the U.S. except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, an offering or sale of the Bonds within the U.S. by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Except in certain limited circumstances, interests in the Bonds may only be held through interests in the Global Certificate. Such interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective direct and indirect participants. See “*The Global Certificate –Global Certificate.*”

Each purchaser of our Bonds in this Offering, by accepting delivery of this Offering Memorandum and those Bonds, will be deemed to have represented, agreed and acknowledged, for the benefit of the Issuer and the Initial Purchaser, that:

- (1) It acknowledges and agrees that the Bonds (and shares issuable upon conversion of the Bonds, to the extent offered and sold), are being offered, sold and delivered to such purchaser outside the U.S. in an “offshore transaction” within the meaning of and in reliance on Regulation S under the Securities Act.
- (2) It understands that our Bonds in the Offering and the shares issuable upon conversion of the Bonds, have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the U.S. and that it will not offer, sell, pledge or otherwise transfer any interest in such Bonds or in the shares issuable upon conversion of the Bonds within the U.S. during the Distribution Compliance Period unless such Bonds or the shares issuable upon conversion of the Bonds are registered in the U.S. or except as permitted by the applicable exemptions under U.S. securities laws and the securities laws of any State of the U.S.
- (3) We and the Initial Purchaser and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.
- (4) The Bonds will bear legends to the following effect, which restrictions we will observe unless we determine otherwise in compliance with applicable law:

THE BONDS EVIDENCED HEREBY AND THE SHARES OF COMMON STOCK OF AERKOMM INC. ISSUABLE UPON CONVERSION OF THE BONDS EVIDENCED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND (i) MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (ii) HEDGING TRANSACTIONS INVOLVING THESE BONDS MUST BE MADE ONLY IN COMPLIANCE WITH THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE BONDS EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

Each purchaser of our Bonds in the Offering will be deemed to have represented and agreed that (a) it is relying on this Offering Memorandum and not on any other information or representation concerning us or our Bonds, and none of us, nor any other person will be responsible for this Offering Memorandum or any part of it, nor the Initial Purchaser will have any liability for any such other information or representation; and (b)(i) it is able to fend for itself in the transactions contemplated by this Offering Memorandum, (ii) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment in the Bonds, and (iii) it has the ability to bear the economic risks of its prospective investment and can afford the complete loss of such investment.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Bonds will be advised upon for us by Johnson & Partners as to ROC law. Certain legal matters in connection with the offering of the Bonds will be advised upon for us by Bevilacqua PLLC as to California, Nevada and United States Securities law. Certain legal matters in connection with the offering of the Bonds will be advised upon for us by Paul Hastings LLP as to French law.

INDEPENDENT AUDITORS

The consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 included in this Offering Memorandum have been audited by Chen & Fan Accountancy Corporation, an independent registered public accounting firm, as indicated in their report with respect thereto, included herein.

With respect to our unaudited consolidated financial information as of and for the nine months ended September 30, 2019 and 2020, included in this Offering Memorandum, Chen & Fan Accountancy Corporation, an independent registered public accounting firm, reported that they have applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") for a review of such information. However, their report with respect thereto included in this Offering Memorandum states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Chen & Fan Accountancy Corporation is located at 181 Metro Drive, Suite 500 San Jose, CA 95110, USA.

GENERAL INFORMATION

- (1) **Legal Status:** Aerkomm Inc. (formerly Maple Tree Kids Inc.) was incorporated on August 14, 2013 in the State of Nevada, U.S.A.
- (2) **Legal Entity Identifier:** 5493009CUNFK9IGU8R54
- (3) **ISIN for the Conversion Shares:** US00774B2088
- (4) **The SGX-ST:** Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST takes no responsibility for the correctness of any statements made, reports contained or opinions expressed herein. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Offering, our Company, our subsidiaries or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
- (5) **Authorizations:** The issue of the Bonds and the Conversion Shares upon conversion of the Bonds were authorized by resolutions passed at a meeting of our board of directors held on November 9, 2020. All other necessary consents, approvals and authorizations required under the United States law and the French law in connection with the issue of the Bonds and the Conversion have been given or obtained. A copy of this Offering Memorandum will be filed with the Euronext Paris subsequent to the closing of this Offering.
- (6) **Material Change:** Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial position or Offering Memorandum since September 30, 2020, the date of our latest unaudited interim consolidated financial statements.
- (7) **Litigation:** Except as disclosed in this Offering Memorandum, neither we nor any of our subsidiaries are involved in any litigation or arbitration proceedings which may have, or have had during the twelve (12) months preceding the date of this Offering Memorandum, a material adverse effect on our financial position or that of our subsidiaries, nor are we or any of our subsidiaries aware that any such proceedings are pending or threatened.
- (8) **Documents Available:** For as long as the Bonds are listed on the SGX-ST, copies (and certified English translations where the documents are not in English) of the following documents may be inspected at the specified offices of the Paying Agent:
 - our articles of incorporation and bylaws;
 - a copy of the audit report of the independent auditors and the consolidated financial statements of our Company for the years ended December 31, 2017, 2018 and 2019;
 - a copy of the reviewed report of the independent auditors and the consolidated financial statements of our Company for the nine months ended September 30, 2019 and 2020;
 - the Purchase Agreement relating to the Bonds;
 - the Indentures constituting the Bonds; and
 - the Agency Agreements.

In addition, copies of our most recent annual financial statements will be available free of charge at the principal office of the Issuer until the Bonds are redeemed, converted, or repurchased and canceled.
- (9) **Consolidated Subsidiaries:** We are required to consolidate the financial results of any subsidiary of which the total number of outstanding shares held by us exceeds 50% or over which we can exercise control. Our historical annual and quarterly financial statements have been prepared on a consolidated basis.
- (10) **Clearing Systems:** The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream.
 - The ISIN for the Credit Enhanced Bonds is XS2243298143 and the Common Code is 224329814.
 - The ISIN for the Coupon Bonds is XS2243298812 and the Common Code is 224329881.

THIS PAGE IS INTENTIONALLY LEFT BLANK

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets as of December 31, 2017 and 2018.....	F-4
Consolidated Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2017 and 2018.....	F-5
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2018	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2018	F-7
Notes to Consolidated Financial Statements for the Years Ended December 31, 2017 and 2018	F-9

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019

Report of Independent Registered Public Accounting Firm	F-27
Consolidated Balance Sheets as of December 31, 2018 and 2019.....	F-28
Consolidated Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2018 and 2019.....	F-29
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2018 and 2019	F-30
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2019	F-31
Notes to Consolidated Financial Statements for the Years Ended December 31, 2018 and 2019	F-32

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2020

Consolidated Balance Sheets	F-52
Consolidated Statements of Operations and Comprehensive Loss	F-53
Consolidated Statements of Changes in Stockholders' Equity	F-54
Consolidated Statements of Cash Flows	F-55
Notes to Consolidated Financial Statements for the Nine Months Ended September 30, 2019 and 2020.....	F-56

AUDITED FINANCIAL STATEMENTS OF THE BG BANK AS OF AND FOR THE YEARS ENDED DECEMBER 31 2019 AND 2018

Independent Auditors' Report.....	F-77
Statements of Financial Position.....	F-81
Statements of Comprehensive Income.....	F-82
Statements of Changes in Equity	F-83
Statements of Cash Flows.....	F-84
Notes to the Financial Statements for the Years Ended December 31, 2019 and 2018	F-85

AERKOMM INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2018 AND 2017
THREE MONTHS ENDED MARCH 31, 2018 AND
YEAR ENDED DECEMBER 31, 2018 and 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

AERKOMM INC.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AERKOMM INC. AND SUBSIDIARIES (the “Company”) as of December 31, 2018, March 31, 2018 and December 31, 2017, and the related consolidated statements of operations and comprehensive loss, changes in stockholders’ equity, and cash flows for the nine-month period ended December 31, 2018, the three-month period ended March 31, 2018 and each of the year ended December 31, 2018 and 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018, March 31, 2018 and December 31, 2017, and the consolidated results of its operations and its cash flows for the nine-month period ended December 31, 2018, three-month period ended March 31, 2018 and the years ended December 31, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring loss from operations that raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to this matter are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Chen & Fan Accountancy Corporation

We have served as the Company’s auditor since 2017.

San Jose, California
March 22, 2019

AERKOMM INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2018, March 31, 2018 and December 31, 2017

	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<u>Assets</u>			
Current Assets			
Cash	\$ 88,309	\$ 58,237	\$ 21,504
Accounts receivable	1,745,000	-	-
Inventories	-	208,674	208,674
Prepaid expenses	1,479,123	362,602	543,642
Other receivable – related party	-	-	46,743
Other receivable – others	2,616	427,291	412,390
Temporary deposit – related party	100,067	-	-
Other current assets	11,336	1,202	6,591
Total Current Assets	3,426,451	1,058,006	1,239,544
Property and Equipment			
Cost	2,715,543	407,501	405,319
Accumulated depreciation	(322,049)	(119,782)	(100,592)
	2,393,494	287,719	304,727
Prepayment for land	35,237,127	-	-
Prepayment for equipment	54,625	181,250	-
Construction in progress	1,311,245	3,254,170	3,250,000
Net Property and Equipment	38,996,491	3,723,139	3,554,727
Other Assets			
Intangible asset, net	3,382,500	3,753,750	3,877,500
Goodwill	1,475,334	1,450,536	1,450,536
Deposits - related party	2,462	2,542	2,396
Deposits - others	105,447	148,839	141,273
Total Other Assets	4,965,743	5,355,667	5,471,705
Total Assets	\$ 47,388,685	\$ 10,136,812	\$ 10,265,976
<u>Liabilities and Stockholders' Equity</u>			
Current Liabilities			
Short-term bank loan	\$ -	\$ 10,000	\$ 10,000
Short-term loan - related party	-	325,040	-
Accounts payable	1,650,000	-	-
Accrued expenses	412,165	881,214	637,675
Other payable - related parties	949,298	1,299,578	1,082,395
Other payable - others	2,956,488	2,264,637	2,081,787
Total Current Liabilities	5,967,951	4,780,469	3,811,857
Restricted stock deposit liability	1,000	14	56
Total Liabilities	5,968,951	4,780,483	3,811,913
Commitments			
Stockholders' Equity			
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding as of December 31, 2018, March 31, 2018 and December 31, 2017	-	-	-
Common stock, \$0.001 par value, 90,000,000 shares authorized, 9,098,090 shares (excluding 149,162 unvested restricted shares) issued and outstanding as of December 31, 2018; 8,289,947 shares (excluding 2,072 unvested restricted shares) issued and outstanding as of March 31, 2018; 8,283,733 shares (excluding 8,286 unvested restricted shares) issued and outstanding as of December 31, 2017	45,490	41,449	41,418
Additional paid in capital	56,546,408	13,787,341	13,484,857
Subscribed capital	-	690,648	75,040
Subscriptions receivable	-	(559,608)	-
Accumulated deficits	(15,292,128)	(8,602,971)	(7,143,788)
Accumulated other comprehensive income (loss)	119,964	(530)	(3,464)
Total Stockholders' Equity	41,419,734	5,356,329	6,454,063
Total Liabilities and Stockholders' Equity	\$ 47,388,685	\$ 10,136,812	\$ 10,265,976

See accompanying notes to the consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
For the Nine-Month Periods ended December 31, 2018 and 2017 (Unaudited),
Three-Month Period ended March 31, 2018 and Years Ended December 31, 2018 and 2017

	Nine Months Ended December 31,		Three Months Ended March 31,	Year Ended December 31,	
	2018	2017	2018	2018	2017
Revenue		(Unaudited)			
Net sales	\$ 1,730,000	\$ -	\$ -	\$ 1,730,000	\$ -
Service income	15,000	-	-	15,000	-
Total Revenue	<u>1,745,000</u>	<u>-</u>	<u>-</u>	<u>1,745,000</u>	<u>-</u>
Cost and Expenses					
Cost of sales	1,661,849	-	-	1,661,849	-
Operating expenses	<u>6,645,134</u>	<u>6,233,393</u>	<u>1,450,899</u>	<u>8,096,033</u>	<u>7,147,597</u>
Total Cost and Expenses	<u>8,306,983</u>	<u>6,233,393</u>	<u>1,450,899</u>	<u>9,757,882</u>	<u>7,147,597</u>
Loss from Operations	(6,561,983)	(6,233,393)	(1,450,899)	(8,012,882)	(7,147,597)
Net Non-Operating Income (Loss)	<u>(127,113)</u>	<u>(1,877)</u>	<u>(4,222)</u>	<u>(131,335)</u>	<u>23,652</u>
Loss Before Income Taxes	(6,689,096)	(6,235,270)	(1,455,121)	(8,144,217)	(7,123,945)
Income Tax Expense	<u>61</u>	<u>6,134</u>	<u>4,062</u>	<u>4,123</u>	<u>8,519</u>
Net Loss	(6,689,157)	(6,241,404)	(1,459,183)	(8,148,340)	(7,132,464)
Other Comprehensive Income (Loss)					
Change in foreign currency translation adjustments	<u>120,494</u>	<u>(107)</u>	<u>2,934</u>	<u>123,428</u>	<u>(3,454)</u>
Total Comprehensive Loss	<u>\$ (6,568,663)</u>	<u>\$ (6,241,511)</u>	<u>\$ (1,456,249)</u>	<u>\$ (8,024,912)</u>	<u>\$ (7,135,918)</u>
Net Loss Per Common Share:					
Basic	<u>\$ (0.7403)</u>	<u>\$ (0.7602)</u>	<u>\$ (0.1760)</u>	<u>\$ (0.9205)</u>	<u>\$ (0.8736)</u>
Diluted	<u>\$ (0.7403)</u>	<u>\$ (0.7602)</u>	<u>\$ (0.1760)</u>	<u>\$ (0.9205)</u>	<u>\$ (0.8736)</u>
Weighted Average Shares Outstanding - Basic	<u>9,035,386</u>	<u>8,210,464</u>	<u>8,292,034</u>	<u>8,852,094</u>	<u>8,164,313</u>
Weighted Average Shares Outstanding - Diluted	<u>9,035,386</u>	<u>8,210,464</u>	<u>8,292,034</u>	<u>8,852,094</u>	<u>8,164,313</u>

See accompanying notes to the consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Additional Paid in Capital	Subscribed Capital	Subscription Receivable	Retained Earnings (Accumulated Deficits)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Non Controlling Interest in Subsidiary	Total Equity
	Shares	Amount								
Balance as of January 1, 2017	19,744,012	\$ 4,470,839	\$ 80,000	\$ 1,862,643	\$ -	\$ (551,204)	\$ (10)	\$ 5,862,268	\$ 50	\$ 5,862,318
Reverse acquisition	(12,220,291)	(4,433,221)	5,756,024	(1,862,643)	-	539,880	10	50	(50)	-
Issuance of common stock	269,849	1,349	5,838,551	(1,452,473)	-	-	-	4,387,427	-	4,387,427
Subscribed capital	-	-	-	1,527,513	-	-	-	1,527,513	-	1,527,513
Issuance of stock warrant	-	-	60,000	-	-	-	-	60,000	-	60,000
Restricted stock vested and transferred to common stock	490,163	2,451	836	-	-	-	-	3,287	-	3,287
Stock compensation expense	-	-	1,749,446	-	-	-	-	1,749,446	-	1,749,446
Net loss for the year	-	-	-	-	-	(7,132,464)	-	(7,132,464)	-	(7,132,464)
Other comprehensive loss	-	-	-	-	-	-	(3,464)	(3,464)	-	(3,464)
Balance as of December 31, 2017	8,283,733	41,418	13,484,857	75,040	-	(7,143,788)	(3,464)	6,454,063	-	6,454,063
Issuance of stock warrant	-	-	26,667	-	-	-	-	26,667	-	26,667
Subscription receivable	-	-	-	-	(559,608)	-	-	(559,608)	-	(559,608)
Subscribed capital	-	-	-	615,608	-	-	-	615,608	-	615,608
Restricted stock vested and transferred to common stock	6,214	31	11	-	-	-	-	42	-	42
Stock compensation expense	-	-	275,806	-	-	-	-	275,806	-	275,806
Net loss for the period	-	-	-	-	-	(1,459,183)	-	(1,459,183)	-	(1,459,183)
Other comprehensive income	-	-	-	-	-	-	2,934	2,934	-	2,934
Balance as of March 31, 2018	8,289,947	41,449	13,787,341	690,648	(559,608)	(8,602,971)	(530)	5,356,329	-	5,356,329
Issuance of common stock	1,059,646	5,298	41,388,641	(690,648)	559,608	-	-	41,262,899	-	41,262,899
Issuance of stock warrant	-	-	223,700	-	-	-	-	223,700	-	223,700
Restricted stock vested and transferred to common stock	2,072	10	4	-	-	-	-	14	-	14
Common stock transferred back to unvested restricted stock	(253,575)	(1,267)	(433)	-	-	-	-	(1,700)	-	(1,700)
Stock compensation expense	-	-	1,147,155	-	-	-	-	1,147,155	-	1,147,155
Net loss for the period	-	-	-	-	-	(6,689,157)	-	(6,689,157)	-	(6,689,157)
Other comprehensive income	-	-	-	-	-	-	120,494	120,494	-	120,494
Balance as of December 31, 2018	<u>9,098,090</u>	<u>\$ 45,490</u>	<u>\$ 56,546,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,292,128)</u>	<u>\$ 119,964</u>	<u>\$ 41,419,734</u>	<u>\$ -</u>	<u>\$ 41,419,734</u>

See accompanying notes to the consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Nine-Month Periods Ended December 31, 2018 and 2017 (Unaudited),

Three-Month Period ended March 31, 2018

and Years Ended December 31, 2018 and 2017

	Nine Months Ended December 31,		Three Months Ended March 31,	Year Ended December 31,	
	2018	2017	2018	2018	2017
Cash Flows From Operating Activities		(Unaudited)			
Net loss	\$ (6,689,157)	\$ (6,241,404)	\$ (1,459,183)	\$ (8,148,340)	\$ (7,132,464)
Adjustments to reconcile net loss to net cash used for operating activities:					
Depreciation and amortization	573,541	421,811	142,940	716,481	551,767
Stock-based compensation	1,147,155	1,740,446	275,806	1,422,961	1,749,446
R&D expenses transferred from inventory and construction in progress	732,828	-	-	732,828	-
Changes in operating assets and liabilities:					
Accounts receivable	(1,745,000)	-	-	(1,745,000)	-
Inventories	-	1,230	-	-	1,055
Prepaid expenses	(1,116,521)	(262,878)	(210)	(1,116,731)	(521,949)
Other receivable - related party	-	162,335	46,743	(53,324)	162,335
Other receivable - others	424,675	181,278	(14,901)	409,774	(318)
Temporary deposit - related party	(100,067)	-	-	-	-
Other current assets	(10,134)	-	5,389	(4,745)	-
Deposits - related party	80	6,511	(7,566)	(66)	2,570
Deposits - others	43,392	660,132	(146)	35,826	660,132
Accounts payable	1,650,000	-	-	1,650,000	-
Accrued expenses	(469,049)	450,419	243,539	(225,510)	506,822
Other payable - related parties	(350,280)	(2,350,334)	217,183	(133,097)	(2,373,180)
Other payable - others	(695,276)	216,945	182,850	(512,426)	392,299
Net Cash Used for Operating Activities	<u>(6,603,813)</u>	<u>(5,013,509)</u>	<u>(367,556)</u>	<u>(6,971,369)</u>	<u>(6,001,485)</u>
Cash Flows from Investing Activities					
Prepaid investment	-	360,000	-	-	-
Prepayment on land and satellite equipment	(33,850,000)	-	-	(33,850,000)	-
Purchase of property and equipment	(762,670)	(273,015)	(6,352)	(769,022)	(273,015)
Acquisitions of goodwill	(24,798)	-	-	(24,798)	-
Net Cash Provided by (Used for) Investing Activities	<u>(34,637,468)</u>	<u>86,985</u>	<u>(6,352)</u>	<u>(34,643,820)</u>	<u>(273,015)</u>
Cash Flows from Financing Activities					
Proceeds from (Repayment of) short-term bank loan	(10,000)	10,000	-	(10,000)	10,000
Proceeds from (Repayment of) short-term loan - related party	(325,040)	-	325,040	-	-
Proceeds from issuance of common stock	41,262,899	2,887,428	-	41,318,899	5,839,901
Payment on repurchase of restricted stock	(700)	-	-	(700)	-
Proceeds from subscribed capital	-	1,527,513	56,000	-	75,040
Issuance of stock warrant	223,700	30,000	26,667	250,367	60,000
Net Cash Provided by Financing Activities	<u>41,150,859</u>	<u>4,454,941</u>	<u>407,707</u>	<u>41,558,566</u>	<u>5,984,941</u>
Net (Decrease) Increase in Cash	(90,422)	(471,583)	33,799	(56,623)	(289,559)
Cash from acquired subsidiaries	-	2,354	-	-	2,354
Cash, Beginning of Period	58,237	490,840	21,504	21,504	312,173
Foreign Currency Translation Effect on Cash	<u>120,494</u>	<u>(107)</u>	<u>2,934</u>	<u>123,428</u>	<u>(3,464)</u>
Cash, End of Period	<u><u>\$ 88,309</u></u>	<u><u>\$ 21,504</u></u>	<u><u>\$ 58,237</u></u>	<u><u>\$ 88,309</u></u>	<u><u>\$ 21,504</u></u>
Supplemental disclosures of cash flow information:					
Cash paid during the period for income taxes	<u>\$ 4,061</u>	<u>\$ 6,239</u>	<u>\$ -</u>	<u>\$ 4,061</u>	<u>\$ 6,239</u>
Cash paid during the period for interest	<u>\$ 2,008</u>	<u>\$ 131</u>	<u>\$ 113</u>	<u>\$ 2,121</u>	<u>\$ 131</u>

Non-cash Operating and Financing Activities:

Construction in progress transferred to other receivable	\$ -	\$ -	\$ -	\$ -	\$ 410,000
Restricted stock deposit liability transferred to (from) common stock	\$ (1,686)	\$ 2,315	42	\$ (1,644)	\$ 3,287
Other payable to related parties transferred to subscribed capital	\$ -	\$ 2,027,400	\$ -	\$ -	\$ 2,027,400
Total payment for acquisition of subsidiaries					
Cash	\$ 14,527	\$ 5,704	\$ -	\$ 14,527	\$ 5,704
Prepaid expenses	4,317	16,500	-	4,317	16,500
Other receivable - related party	43,448	210,259	-	43,448	210,259
Property and equipment - net	-	5,152	-	-	5,152
Goodwill	24,798	344,594	-	24,798	344,594
Accrued expenses	-	(60,640)	-	-	(60,640)
Other payable	-	(518,219)	-	-	(518,219)
Total payment for acquisition of subsidiaries	\$ 87,090	\$ 3,350	\$ -	\$ 87,090	\$ 3,350

See accompanying notes to the consolidated financial statements.

NOTE 1 - Organization

Aerkomm Inc. (formerly Maple Tree Kids Inc.) (“Aerkomm”) was incorporated on August 14, 2013 in the State of Nevada. Aerkomm was a retail distribution company selling all of its products over the internet in the United States, operating in the infant and toddler products business market.

On December 28, 2016, Aircom Pacific Inc. (“Aircom”) purchased 140,000 shares of Aerkomm’s common stock, representing approximately 86.3% of Aerkomm’s issued and outstanding common stock as of the closing date of purchase. As a result of the transaction, Aircom became the controlling shareholder of Aerkomm.

On February 13, 2017, Aerkomm entered into a share exchange agreement (“Exchange Agreement”) with Aircom and its shareholders, pursuant to which Aerkomm acquired 100% of the issued and outstanding capital stock of Aircom in exchange for approximately 99.7% of the issued and outstanding capital stock of Aerkomm (or 87.81% on a fully-diluted basis). As a result of the share exchange, Aircom became a wholly-owned subsidiary of Aerkomm, and the former shareholders of Aircom became the holders of approximately 99.7% of Aerkomm’s issued and outstanding capital stock.

Aircom was incorporated on September 29, 2014 under the laws of the State of California.

On December 31, 2014, Aircom acquired a newly incorporated subsidiary, Aircom Pacific Ltd. (“Aircom Seychelles”), a corporation formed under the laws of the Republic of Seychelles. Aircom Seychelles was formed to facilitate Aircom’s global corporate structure for both business operations and tax planning. Presently, Aircom Seychelles has no operations. Aircom is working with corporate and tax advisers in finalizing its global corporate structure and has not yet concluded its final plan.

On October 17, 2016, Aircom acquired a wholly owned subsidiary, Aircom Pacific Inc. Limited (“Aircom HK”), a corporation formed under the laws of Hong Kong. The purpose of Aircom HK is to conduct Aircom’s business and operations in Hong Kong. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in Hong Kong. Aircom HK is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to Hong Kong-based airlines via Aircom HK and teleports located in Hong Kong.

On December 15, 2016, Aircom acquired a wholly owned subsidiary, Aircom Japan, Inc. (“Aircom Japan”), a corporation formed under the laws of Japan. The purpose of Aircom Japan is to conduct business development and operations located within Japan. Aircom Japan is in the process of applying for, and will be the holder of, Satellite Communication Blanket License in Japan, which is necessary for Aircom to provide services within Japan. Aircom Japan will also provide local supports to airlines operating within the territory of Japan.

Aircom Telecom LLC (“Aircom Taiwan”), which became a wholly owned subsidiary of Aircom in December 2017, was organized under the laws of Taiwan on June 29, 2016. During 2017, Aircom advanced a total of \$460,000 to Aircom Taiwan, which was not affiliated with Aircom during that time, for working capital, as part of a planned \$1,500,000 aggregate equity investment (the “Equity Investment”) in Aircom Taiwan. Before Aircom Taiwan was allowed to issue equity to Aircom, a foreign investor, the Equity Investment must be approved by the Investment Review Committee of the Ministry of Economic affairs of Taiwan (the “Committee”). Aircom entered into an Equity Pre-Subscription Agreement with Aircom Taiwan on August 13, 2017 to memorialize the terms of the Equity Investment. On December 19, 2017, the Committee approved Aircom’s initial Equity Investment (valued as of that date at NT\$15,150,000, or approximately US\$500,000) and the purchase of the founding owner’s total equity of NT\$100,000 (approximately US\$3,350). As a result, Aircom Taiwan became a wholly owned subsidiary of Aircom.

Aircom Taiwan is responsible for Aircom’s business development efforts and general operations within Taiwan. We are currently planning to locate the site of our first ground station in Taiwan and we expect that if we raise sufficient funds to move forward with this project (although that cannot be guaranteed), Aircom Taiwan will play a significant role in building and operating that ground station.

On June 13, 2018, Aerkomm established a new wholly owned subsidiary, Aerkomm Taiwan Inc. (“Aerkomm Taiwan”), a corporation formed under the laws of Taiwan. The purpose of Aerkomm Taiwan is to purchase a parcel of land for ground station building and operate the ground station for data processing.

On November 15, 2018, Aircom Taiwan acquired a wholly owned subsidiary, Beijing Yatai Communication Co., Ltd. (“Aircom Beijing”), a corporation formed under the laws of China. The purpose of Aircom Beijing is to conduct Aircom’s business and operations in China. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in China as most business conducted in China requires a local registered company. Aircom Beijing is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to China-based airlines via Aircom Beijing and teleports located in China.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 1 - Organization - Continued

Aircom and its subsidiaries (the “Company”) are full-service, development stage providers of in-flight entertainment and connectivity solutions with their initial market in the Asian Pacific region.

The Company has not generated significant revenues, excluding non-recurring revenues from affiliates in the second quarter of fiscal 2018, and will incur additional expenses as a result of being a public reporting company. If the Company is unable to obtain additional working capital, the Company’s business may fail. For the nine-month period and the year ended December 31, 2018, the Company incurred a comprehensive loss of \$6,568,663 and \$8,024,912, respectively, and had working capital deficiency of \$2,541,500 as of December 31, 2018, which raises substantial doubt about its ability to continue as a going concern. Currently, the Company has taken measures that management believes will improve its financial position by financing activities, short-term borrowings and equity contributions.

On January 16, 2019, the Company completed a 1-for-5 reverse split of the Company’s authorized, issued and outstanding shares of common stock, which was completed by the filing of a Certificate of Change Pursuant to NRS 78.209 with the Nevada Secretary of State on December 26, 2018 (see Note 15). All of the references in these financial statements to authorized common stock and issued and outstanding common stock have been adjusted to reflect this reverse split.

NOTE 2 - Summary of Significant Accounting Policies

Changes in Fiscal Year

On March 18, 2018, the Company’s Board of Directors approved a change in the Company’s fiscal year end from December 31 to March 31. Year-over-year quarterly financial data continue to be comparative to prior periods as the three months that comprise each fiscal quarter in the new fiscal year are the same as those in the Company’s historical financial statements.

On February 12, 2019, the Company’s Board of Directors approved a change in the Company’s fiscal year end from March 31 to December 31. Year-over-year quarterly financial data continue to be comparative to prior periods as the nine months that comprise each fiscal quarter in the new fiscal year are the same as those in the Company’s historical financial statements.

Principle of Consolidation

Aerkomm consolidates the accounts of its subsidiaries, Aircom, Aircom Seychelles, Aircom HK, Aircom Japan, Aircom Taiwan, Aerkomm Taiwan and Aircom Beijing. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications of Prior Period Presentation

Certain prior period balance sheet and income statement amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash in banks. As of December 31, 2018, all cash in bank was fully insured by the Federal Deposit Insurance Corporation (FDIC) for the Company and no balance of cash in foreign bank exceeded the amount insured by local deposit insurance.

The Company performs ongoing credit evaluation of its customers and requires no collateral. An allowance for doubtful accounts is provided based on a review of the collectability of accounts receivable. The Company determines the amount of allowance for doubtful accounts by examining its historical collection experience and current trends in the credit quality of its customers as well as its internal credit policies. Actual credit losses may differ from management’s estimates.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 2 - Summary of Significant Accounting Policies - Continued

Inventories

Inventories are recorded at the lower of weighted-average cost or net realizable value. The Company assesses the impact of changing technology on its inventory on hand and writes off inventories that are considered obsolete. Estimated losses on scrap and slow-moving items are recognized in the allowance for losses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. When value impairment is determined, the related assets are stated at the lower of fair value or book value. Significant additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed by using the straight-line and double declining methods over the following estimated service lives: ground station equipment – 5 years, computer equipment - 3 to 5 years, furniture and fixtures - 5 years, satellite equipment – 5 years, vehicles – 5 years and lease improvement – 5 years.

Construction costs for on-flight entertainment equipment not yet in service are recorded under construction in progress.

Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss credited or charged to income in the period of sale or disposal.

The Company reviews the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. It determined that there was no impairment loss for the nine-month periods ended December 31, 2018 and 2017.

Goodwill and Purchased Intangible Assets

The Company's goodwill represents the amount by which the total purchase price paid exceeded the estimated fair value of net assets acquired from acquisition of subsidiaries. The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment.

Purchased intangible assets with finite life are amortized on the straight-line basis over the estimated useful lives of respective assets. Purchased intangible assets with indefinite life are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Purchased intangible asset consists of satellite system software and is amortized over 10 years.

Fair Value of Financial Instruments

The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions.

The carrying amounts of the Company's cash, accounts receivable, other receivable, short-term bank loan and other payable approximated their fair value due to the short-term nature of these financial instruments.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 2 - Summary of Significant Accounting Policies - Continued

Revenue Recognition

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. The Company's major revenue for the nine-month period and the year ended December 31, 2018 was the development of a small cell server terminal which will be utilized in the construction of a satellite-based ground communication system networks. The Company also had minor revenue from providing installation and testing services of a satellite-based ground connectivity system. The majority of the Company's revenue is recognized at a point in time when product is shipped or service is provided to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods, which includes estimates for variable consideration.

Research and Development Costs

Research and development costs are charged to operating expenses as incurred. For the nine-month periods ended December 31, 2018 and 2017, the three-month period ended March 31, 2018 and the years ended December 31, 2018 and 2017 the Company incurred \$1,451,202, \$366,047, \$90,750 (unaudited), \$1,541,952 and \$336,000 of research and development costs, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Adjustments to prior period's income tax liabilities are added to or deducted from the current period's tax provision.

The Company follows FASB guidance on uncertain tax positions and has analyzed its filing positions in all the federal, state and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in those jurisdictions. The Company files income tax returns in the US federal, state and foreign jurisdictions where it conducts business. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on its consolidated financial position, results of operations, or cash flows. Therefore, no reserves for uncertain tax positions have been recorded. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months.

The Company's policy for recording interest and penalties associated with any uncertain tax positions is to record such items as a component of income before taxes. Penalties and interest paid or received, if any, are recorded as part of other operating expenses in the consolidated statement of operations.

Translation Adjustments

If a foreign subsidiary's functional currency is the local currency, translation adjustments will result from the process of translating the subsidiary's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported under other comprehensive income (loss) as a separate component of stockholders' equity.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include stock warrants and outstanding stock options, shares to be purchased by employees under the Company's employee stock purchase plan.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 2 - Summary of Significant Accounting Policies - Continued

Subsequent Events

The Company has evaluated events and transactions after the reported period up to March 22, 2019, the date on which these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2018 have been included in these consolidated financial statements.

NOTE 3 - Recent Accounting Pronouncements

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU 2016-13 on its consolidated financial statements.

Intangibles

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other” (Topic 350): Simplifying the Test for Goodwill Impairment, which goodwill shall be tested at least annually for impairment at a level of reporting referred to as a reporting unit. ASU 2017-04 will be effective for annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of adopting ASU 2017-04 on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”), which modifies lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting ASU 2016-02 on its consolidated financial statements.

Income Statement

In February 2018, FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income” (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with effect included in income from continuing operations in the reporting period that includes the enactment date of Tax Cut and Jobs Act. ASU 2018-02 will be effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the timing of its adoption and the impact of adopting ASU 2018-02 on its consolidated financial statements.

Stock Compensation

In June 2018, FASB issued ASU 2018-07, “Compensation-Stock Compensation” (Topic 718): Improvement of Nonemployee Share-Based Payment Accounting, which amends the accounting for nonemployee share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 will be effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within the fiscal year. The Company is currently evaluating the timing of its adoption and the impact of adopting ASU 2018-07 on its consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 4 - Inventories

As of December 31, 2018, March 31, 2018 and December 31, 2017, inventories consisted of the following:

	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Satellite equipment for sale under construction	\$ -	\$ 197,645	\$ 197,645
Parts	-	11,029	11,029
Supplies	5,273	5,468	5,540
	<u>5,273</u>	<u>214,142</u>	<u>214,214</u>
Allowance for inventory loss	(5,273)	(5,468)	(5,540)
Net	<u>\$ -</u>	<u>\$ 208,674</u>	<u>\$ 208,674</u>

As of December 31, 2018, the Company transferred inventories in the amount of \$11,029 to R&D expenses.

NOTE 5 - Property and Equipment

For the nine months ended December 31, 2018, the three months ended March 31, 2018 and the year ended December 31, 2017, the changes in cost of property and equipment were as follows:

	Computer software and equipment	Furniture and fixture	Satellite Equipment	Ground station equipment	Vehicle	Leasehold Improvement	Total
January 1, 2017	\$ 118,911	\$ 10,006	\$ -	\$ -	\$ -	\$ -	\$ 128,917
Addition	992	-	275,410	-	-	-	276,402
December 31, 2017	119,903	10,006	275,410	-	-	-	405,319
Addition	2,182	-	-	-	-	-	2,182
March 31, 2018	122,085	10,006	275,410	-	-	-	407,501
Addition	198,985	23,338	-	1,854,027	141,971	89,721	2,308,042
December 31, 2018	<u>\$ 321,070</u>	<u>\$ 33,344</u>	<u>\$ 275,410</u>	<u>\$ 1,854,027</u>	<u>\$ 141,971</u>	<u>\$ 89,721</u>	<u>\$ 2,715,543</u>

As of January 1, 2017, construction in progress of \$3,660,000 was the payment for the construction of ground station equipment relating to satellite communication system and in-flight system for the Company's internal use. In 2017, one of the purchase contracts related to onboard equipment became undeliverable. Therefore, the Company reclassified the relevant payment of \$410,000 recorded under construction in progress to other receivable. As a result, the balance of construction in progress was reduced to \$3,250,000 as of December 31, 2017. For the three months ended March 31, 2018 and nine months ended December 31, 2018, the Company made additional payments for the expenditure of construction in progress. As of March 31, 2018, the balance of construction in progress was \$3,254,170. As of December 31, 2018, the balance of construction in progress was \$1,311,245 after the Company transferred construction in progress in the amount of \$721,799 to R&D expenses and \$1,854,027 to ground station equipment.

For the nine months ended December 31, 2018, the three months ended March 31, 2018 and the year ended December 31, 2017, the changes in accumulated depreciation for property and equipment were as follows:

	Computer software and equipment	Furniture and fixture	Satellite Equipment	Ground station equipment	Vehicle	Leasehold Improvement	Total
January 1, 2017	\$ 39,604	\$ 4,221	\$ -	\$ -	\$ -	\$ -	\$ 43,825
Addition	17,159	1,997	37,611	-	-	-	56,767
December 31, 2017	56,763	6,218	37,611	-	-	-	100,592
Addition	6,275	477	12,438	-	-	-	19,190
March 31, 2018	63,038	6,695	50,049	-	-	-	119,782
Addition	38,091	2,676	41,311	92,701	21,980	5,508	202,267
December 31, 2018	<u>\$ 101,129</u>	<u>\$ 9,371</u>	<u>\$ 91,360</u>	<u>\$ 92,701</u>	<u>\$ 21,980</u>	<u>\$ 5,508</u>	<u>\$ 322,049</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 5 - Property and Equipment - Continued

On May 1, 2018, the Company and Aerkomm Taiwan entered into a binding memorandum of understanding with Tsai Ming-Yin (the “Seller”) with respect to the acquisition by Aerkomm Taiwan of a parcel of land located in Taiwan. The land is expected to be used to build a satellite ground station and data center. On July 10, 2018, the Company, Aerkomm Taiwan and the Seller entered into a certain real estate sales contract regarding this acquisition. Pursuant to the terms of the contract, and subsequent amendments on July 30, 2018, September 4, 2018, November 2, 2018 and January 3, 2019, the Company paid to the seller in installments refundable prepayment of \$33.85 million as of December 31, 2018. The remaining amount of the purchase price, \$624,462, which may also be paid in installments, must be paid in full by the Company and Aerkomm Taiwan in cash before January 4, 2019, which was subsequently extended to July 4, 2019. As of December 31, 2018, the estimated commission payable for the land purchase in the amount of \$1,387,127 was recorded to the cost of land.

NOTE 6 - Intangible Asset, Net

For the nine months ended December 31, 2018, three months ended March 31, 2018 and the year ended December 31, 2017, the changes in cost and accumulated amortization for intangible asset were as follows:

	Satellite System software	Accumulated amortization	Net Cost
January 1, 2017	\$4,950,000	\$ 577,500	\$4,372,500
Addition	-	495,000	(495,000)
December 31, 2017	4,950,000	1,072,500	3,877,500
Addition	-	123,750	(123,750)
March 31, 2018	4,950,000	1,196,250	3,753,750
Addition	-	371,250	(371,250)
December 31, 2018	<u>\$4,950,000</u>	<u>\$ 1,567,500</u>	<u>\$3,382,500</u>

NOTE 7 - Short-term Bank Loan

The Company has an unsecured short-term bank credit line of \$10,000, which matured on June 14, 2018, from a local bank with an annual interest rate of 4.75%. The Company repaid the bank loan in full on May 24, 2018.

NOTE 8 - Income Taxes

Income tax expense for the nine-month periods ended December 31, 2018 and 2017, three-month period ended March 31, 2018 and the years ended December 31, 2018 and 2017 consisted of the following:

	Nine Months Ended December 31,		Three Months Ended December 31,	Year Ended December 31,	
	2018	2017	2018	2018	2017
Current:		(Unaudited)			
Federal	\$ 61	\$ 3,033	\$ -	\$ 61	\$ 3,033
State	-	-	2,400	2,400	800
Foreign	-	3,101	1,662	1,662	4,686
Total	<u>\$ 61</u>	<u>\$ 6,134</u>	<u>\$ 4,062</u>	<u>\$ 4,123</u>	<u>\$ 8,519</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 8 - Income Taxes - Continued

The following table presents a reconciliation of the Company's income tax at statutory tax rate and income tax at effective tax rate for the nine-month periods ended December 31, 2018 and 2017, three-month period ended March 31, 2018 and years ended December 31, 2018 and 2017.

	Nine Months Ended December 31,		Three Months Ended March 31,	Year Ended December 31,	
	2018	2017	2018	2018	2017
	(Unaudited)				
Tax benefit at statutory rate	\$(1,404,700)	\$(2,082,820)	\$(294,826)	\$(1,699,526)	\$(2,292,820)
Net operating loss carryforwards (NOLs)	1,311,500	1,484,000	172,225	1,483,725	1,760,600
Stock-based compensation expense	240,900	594,800	57,919	298,819	594,800
Amortization expense	(38,400)	30,700	(1,700)	(40,100)	(11,200)
Accrued R&D expense	(168,000)	-	-	(168,000)	-
Others	58,761	(20,546)	70,444	129,205	(42,861)
Tax expense at effective tax rate	<u>\$ 61</u>	<u>\$ 6,134</u>	<u>\$ 4,062</u>	<u>\$ 4,123</u>	<u>\$ 8,519</u>

Deferred tax assets (liability) as of December 31, 2018, March 31, 2018 and December 31, 2017 consist of:

	December 31, 2018	March 31, 2018	December 31, 2017
Net operating loss carryforwards (NOLs)	\$ 5,632,000	\$ 2,339,000	\$ 2,057,000
Stock-based compensation expense	893,000	566,000	489,000
Accrued expenses and unpaid payable	184,000	268,000	443,000
Tax credit carryforwards	68,000	68,000	68,000
Excess of tax amortization over book amortization	(818,000)	(635,000)	(658,000)
Others	131,000	235,000	-
Gross	<u>6,090,000</u>	<u>2,841,000</u>	<u>2,399,000</u>
Valuation allowance	<u>(6,090,000)</u>	<u>(2,841,000)</u>	<u>(2,399,000)</u>
Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Management does not believe the deferred tax assets will be utilized in the near future; therefore, a full valuation allowance is provided. The net change in deferred tax assets valuation allowance was an increase of \$3,249,000 and \$442,000 for the nine months ended December 31, 2018 and the three months ended March 31, 2018.

As of December 31, 2017, the Company had federal NOLs of approximately \$6,686,000 available to reduce future federal taxable income, expiring in 2037. As of December 31, 2018 and March 31, 2018, additional federal NOLs of approximately \$12,515,000 and \$957,000, respectively, was generated and will be carried forward indefinitely to reduce future federal taxable income. As of December 31, 2018, March 31, 2018 and December 31, 2017, the Company had State NOLs of approximately \$21,049,000, \$8,985,000 and \$7,897,000, respectively, available to reduce future state taxable income, expiring in 2038.

As of December 31, 2018, March 31, 2018 and December 31, 2017, the Company has Japan NOLs of approximately \$319,000, \$339,000 and \$326,000 available to reduce future Japan taxable income, expiring in 2028.

As of December 31, 2018, March 31, 2018 and December 31, 2017, the Company has Taiwan NOLs of approximately \$253,000, \$0 and \$0 available to reduce future Taiwan taxable income, expiring in 2028.

As of December 31, 2018, March 31, 2018 and December 31, 2017, the Company had approximately \$37,000, \$37,000 and \$37,000 of federal research and development tax credit, available to offset future federal income tax. The credit begins to expire in 2034 if not utilized. As of December 31, 2018, March 31, 2018 and December 31, 2017, the Company had approximately \$39,000, \$39,000 and \$39,000 of California state research and development tax credit available to offset future California state income tax. The credit can be carried forward indefinitely.

The Company's ability to utilize its federal and state NOLs to offset future income taxes is subject to restrictions resulting from its prior change in ownership as defined by Internal Revenue Code Section 382. The Company does not expect to incur the limitation on NOLs utilization in future annual usage.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 9 - Capital Stock

1) Preferred Stock:

The Company is authorized to issue 10,000,000 shares of preferred stock, with par value of \$0.001. As of December 31, 2018, there were no preferred stock shares outstanding. The Board of Directors has the authority to issue preferred stock in one or more series, and in connection with the creation of any such series, by resolutions providing for the issuance of the shares thereof, to determine dividends, voting rights, conversion rights, redemption privileges and liquidation preferences.

2) Common Stock:

The Company is authorized to issue 90,000,000 shares of common stock, reflecting a reverse split in the ratio of 1 for 5 effective January 16, 2019, with par value of \$0.001.

On February 13, 2017, all of Aircom's 5,513,334 restricted shares were converted to 2,055,947 shares of Aerkomm's restricted stock at the ratio of 2.681651 to 1, pursuant to the Exchange Agreement (see Note 1). As of December 31, 2018, March 31, 2018 and December 31, 2017, the restricted shares consisted of the following:

	December 31, 2018	March 31, 2018	December 31, 2017
Restricted stock - vested	1,802,373	2,053,875	2,047,661
Restricted stock - unvested	149,162	2,072	8,286
Total restricted stock	1,951,535	2,055,947	2,055,947

The unvested shares of restricted stock were recorded under a deposit liability account awaiting future conversion to common stock when they become vested. For the nine-month period ended December 31, 2018, the reporting for 253,575 shares previously reported as vested was changed to reflect their actual status as unvested shares, to correct an incorrect presentation in previous periods.

On March 31, 2017, the Company completed its private placement offering of 100,000 shares of common stock at a price of \$15.00 per share for the aggregate amount of \$1,500,000.

On June 6, 2017, the Company completed its private placement offering of 12,000 shares of common stock at a price of \$25.00 per share for the aggregate amount of \$300,000. Additionally, on June 6, 2017, pursuant to a settlement and release agreement with Priceplay Taiwan Inc. ("PPTW") dated March 31, 2017, among the Company, PPTW and Aircom, the Company issued 32,772 shares of its common stock to PPTW in settlement of an outstanding \$819,300 obligation of Aircom to PPTW. Additionally, pursuant to a similar settlement and release agreement with Priceplay.com, Inc. ("PPUS") dated March 31, 2017, the Company issued 29,480 shares of its common stock to PPUS in settlement of an outstanding \$737,000 obligation of Aircom to PPUS, and pursuant to a third similar settlement and release agreement with Aircom and dMobile System Co. Ltd. (dMobile), it issued 18,844 shares of its common stock to dMobile in settlement of an outstanding \$471,100 obligation of Aircom to dMobile. In the aggregate, the Company has issued 81,096 shares to the three settlement recipients at a price of \$25.00 per share for a total of \$2,027,400.

On July 5, 2017, the Company completed its first closing of a private placement offering in which it sold 1,000 shares of its common stock to Daniel Shih, the Company's co-founder, at a price of \$27.50 per share for a total of \$27,500. The Company conducted additional closings in July and August for a total of \$517,413. As of October 31, 2017, the total subscribed capital amounted to \$544,913. On October 31, 2017, the Company completed this private placement offering of 52,818 shares of common stock at a price of \$27.50 per share for the aggregate amount of \$1,452,473.

On November 30, 2017 and June 30, 2018, the Company issued 16,000 and 4,000 and 8,000 and 2,000 shares of its common stock to Integra Consulting Group LLC ("Integra") and Anthony D. Altavilla, principal of Integra, respectively, according to the Consulting Agreement signed on November 15, 2017 between the Company and Integra.

As of December 31, 2018, one non-employee with qualified stock options exercised the stock options and transferred to 3,935 shares of the Company's common stock.

As of March 31, 2018, the Company completed its private placement offering of 24,666 shares of its common stock at a price of \$28.00 per share for the aggregate amount of \$690,648. As of March 31, 2018, the common shares were issued and the subscriptions receivable of \$559,608 were collected subsequently in April and May, 2018.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 9 - Capital Stock - Continued

On May 14, 2018, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Boustead Securities, LLC (“Boustead”) in connection with the public offering, issuance and sale of up to 1,411,765 shares of the Company’s common stock on a best efforts basis, with a minimum requirement of 117,647 shares, at the public offering price of \$42.50 per share, less underwriting discounts, for minimum gross proceeds of \$5,000,000 and up to a maximum of \$60,000,000. As of December 31, 2018, pursuant to the Underwriting Agreement, the Company had issued an aggregate of 1,024,980 shares of common stock for gross proceeds of \$43,560,894, or net proceeds of \$39,810,204.

On December 21, 2018, the Company repurchased and cancelled an aggregate of 104,413 unvested shares of restricted common stock for a purchase price of \$0.0067 per share.

3) Stock Warrant:

The Company has entered into a service agreement which provides for the issuance of warrants to purchase shares of its common stock to a service provider as payment for services. The warrants allow the service provider to purchase a number of shares of Aerkomm common stock equal to the service fee value divided by 85% of the share price paid by investors for Aerkomm’s common stock in the first subsequent qualifying equity financing event, at an exercise price of \$0.05 per share. For the three-month period ended March 31, 2018 and nine-month period ended December 31, 2018, Aerkomm has issued additional stock warrants exercisable for \$26,667 and \$30,000, respectively, in value of Aerkomm common stock to the service provider as payment for additional services. As of December 31, 2018, these warrants is equivalent to 4,891 shares of the Company’s common stock.

In connection with the Underwriting Agreement with Boustead, the Company agreed to issue to Boustead warrants to purchase a number of the Company’s shares equal to 6% of the gross proceeds of the public offering, which shall be exercisable, in whole or in part, commencing on April 13, 2018 and expiring on the five-year anniversary at an initial exercise price of \$53.125 per share, which is equal to 125% of the offering price paid by investors. As of December 31, 2018, the Company issued warrants to Boustead to purchase 61,498 shares of the Company’s stock. For the nine-month period ended December 31, 2018, the Company recorded \$193,700 to additional paid-in capital as the cost for the issuance of these stock warrants.

NOTE 10 - Major Customer

The Company has one major customer, which represents 10% or more of the total sales of the Company for the period. Sales to and account receivable from the customer for the nine-month period and the year ended and as of December 31, 2018 were \$1,745,000.

NOTE 11 - Major Vendor

The Company has one major vendor, which represents 10% or more of the total purchases of the Company for the period. Purchases from and account payable to the vendor for the nine-month period and the year ended and as of December 31, 2018 were \$1,650,000.

NOTE 12 - Related Party Transactions

A. Name of related parties and relationships with the Company:

Related Party	Relationship
Daniel Shih*	Co-founder and former stockholder; Aircom’s CEO and Director between February 13, 2017 and April 26, 2017; Aircom’s CFO between February 13, 2017 and May 5, 2017
Dmedia Holding LP (“Dmedia”)	23.99% stockholder
Bummy Wu	Shareholder
Jeffrey Wun	Shareholder and CEO of Aerkomm and Aircom
Yih Lieh (Giretsu) Shih	President of Aircom Japan
Hao Wei Peng	Employee of Aircom Taiwan and founding owner of Aircom Taiwan prior to 12/19/2017
Louis Giordimaina	COO - Aviation of Aircom
Klingon Aerospace, Inc. (“Klingon”)	Daniel Shih was the Chairman from February 2015 to February 2016
Wealth Wide Int’l Ltd. (“WWI”)	Bummy Wu, a shareholder, is the Chairman
WISD Intellectual Property Agency, Ltd. (“WISD”)	Patrick Li, Director of Aircom, is the Chairman; Chih-Ming (Albert) Hsu, Director of the Company, is a Director
Yun Shu Chiou	Former CEO and President prior to December 31, 2017

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 12 - Related Party Transactions - Continued

- * Daniel Shih has relinquished “beneficial ownership” of substantially all of his equity interests in the Company (whether held directly or indirectly) in a manner acceptable to the Company. This means that Daniel Shih no longer, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares (i) voting power, which includes the power to vote, or to direct the voting of, securities, and/or (ii) investment power, which includes the power to dispose, or to direct the disposition of, shares of the Company’s common stock, except for a *de minimus* number of shares of the common stock which will continue to be beneficially owned by him by way of his being a control person in another entity that owns shares of the common stock. Daniel Shih will, however, retain a pecuniary interest in some of the shares of the common stock over which he has relinquished voting and investment power. Daniel Shih has also removed himself from any and all activities relating to the Company’s business, including, but not limited to managerial, directional, advisory, promotional, developmental and fund-raising activities, effective upon the effectiveness of the registration statement on Form S-1 originally filed with the SEC on December 20, 2017 and declared effective on April 13, 2018, as amended and supplemented to date. Additionally, Barbie Shih (Barbie), Daniel Shih’s wife, was not re-elected to the Company’s board of directors on December 29, 2017. As a result of these events, neither Daniel nor Barbie will maintain any active affiliation with, or material beneficial ownership interest in, the Company.

B. Significant related party transactions:

The Company has extensive transactions with its related parties. It is possible that the terms of these transactions are not the same as those which would result from transactions among wholly unrelated parties.

a. As of December 31, 2018, March 31, 2018 and December 31, 2017:

	December 31, 2018	March 31, 2018	December 31, 2017
Other receivable from Hao Wei Peng ¹	\$ -	\$ -	\$ 46,743
Temporary deposit to Bummy Wu ²	\$ 100,067	\$ -	\$ -
Rental deposit to Daniel Shih	\$ 2,462	\$ 2,542	\$ 2,396
Loan from Dmedia ³	\$ -	\$ 325,040	\$ -
Other payable to:			
Klingon ⁴	\$ 762,000	\$ 762,000	\$ 762,000
Jeffrey Wun ⁶	46,236	-	22,327
Louis Giordimaina	6,071	135,973	-
Daniel Shih ⁵	13,444	132,305	128,543
Yih Lieh (Giretsu) Shih ⁶	15,497	81,752	76,600
WWI ⁷	39,224	38,241	9,410
Others ⁶	66,826	149,307	83,515
Total	<u>\$ 949,298</u>	<u>\$1,299,578</u>	<u>\$ 1,082,395</u>

1. Represents receivable from Mr. Peng due to the transactions prior to the acquisition of Aircom Telecom on December 19, 2017. The amount is subsequently collected on January 4, 2018.
2. In November 2018, Aircom HK’s bank account was temporarily frozen by its local bank in Hong Kong (the “HK bank”) due to Aircom HK’s failure to timely submit to the HK bank corporate documentation relating to the corporate organization and goodstanding of Aircom HK’s parent company, Aircom, and Aircom’s parent company, Aerkomm. To avoid a potential cash flow issue resulting from this temporary account freeze, Aircom HK withdrew \$100,067 in cash from the HK bank and temporarily deposited it in an existing related party’s bank account at a different bank for safe keeping. The Aircom HK’s bank account with the HK bank was reactivated by the HK bank subsequently and the cash that was transferred to the related party’s account was redeposited into Aircom HK’s bank account at the HK bank in February 2019.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 12 - Related Party Transactions - Continued

3. Represents short-term loan from Dmedia. This short-term loan has an expiration date of January 30, 2019 and an annual interest rate of 3%. The Company repaid the short-term loan in full on June 14, 2018.
 4. On March 9, 2015, the Company entered into a 10-year purchase agreement with Klingon. In accordance with the terms of this agreement, Klingon agreed to purchase from the Company an initial order of onboard equipment comprising an onboard system for a purchase price of \$909,000, with payments to be made in accordance with a specific milestones schedule. As of December 31, 2018, the Company received \$762,000 from Klingon in milestone payments towards the equipment purchase price. Since the project might not be successful, the Company reclassified the balance from customer prepayment to other payable due to uncertainty.
 5. The amount as of March 31, 2018 represents payable to employees as a result of regular operating activities, while the amount as of December 31, 2018 represents rental payable.
 6. Represents payable to employees as a result of regular operating activities.
 7. Represents rent for a warehouse in Hong Kong to store the Company's hardware and another rent for the Hong Kong office starting June 28, 2018.
- b. For the nine-month periods ended December 31, 2018 and 2017, three-month period ended March 31, 2018 and year ended December 31, 2018 and 2017:

	Nine Months Ended December 31,		Three Months Ended March 31,	Year Ended December 31,	
	2018	2017	2018	2018	2017
	(Unaudited)				
Consulting expense paid to Louis Giordimaina	\$ 87,275	\$ -	\$ 134,971	\$ 222,246	\$ -
Consulting expense paid to Yun Shu Chiou	-	-	-	-	55,000
Legal expense paid to WISD	10,779	-	-	10,779	-
Rental expense charged by Daniel Shih	11,811	20,232	4,040	15,851	20,232
Rental expense charged by WWI	27,486	3,150	1,350	28,836	3,150
Interest expense charged by Dmedia	1,915	-	1,201	3,116	-

On May 25, 2018, Mr. Louis Giordimaina was converted from a consultant to a full-time employee and was appointed as Chief Operating Officer – Aviation. The consulting expense paid for the year ended December 31, 2018 in the amount of \$222,246 represents the consulting services provided prior to the conversion.

Aircom Japan entered into a lease agreement with Daniel Shih, between August 1, 2014 and July 31, 2016, which was renewed on July 31, 2018. Pursuant to the terms of this lease agreement, Aircom Japan pays Daniel Shih a rental fee of approximately \$1,200 per month. The lease will be expired on June 2020.

Aircom engaged WISD to handle its filing of patent and trademark applications.

The Company has a lease agreement with WWI with monthly rental cost of \$450. The lease term was from June 1, 2017 to May 31, 2018 and the lease was not renewed. The Company has another lease agreement with WWI for its office space in Hong Kong with monthly rental cost of \$3,833. The lease term is from June 28, 2018 to June 27, 2020.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 13 - Stock Based Compensation

In March 2014, Aircom's Board of Directors adopted the 2014 Stock Option Plan (the "Aircom 2014 Plan"). The Aircom 2014 Plan provided for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of Aircom. On February 13, 2017, pursuant to the Exchange Agreement, Aerkomm assumed the options of Aircom 2014 Plan and agreed to issue options for an aggregate of 1,088,882 shares to Aircom's stock option holders.

One-third of stock option shares will be vested as of the first anniversary of the time the option shares are granted or the employee's acceptance to serve the Company, and 1/36th of the shares will be vested each month thereafter. Option price is determined by the Board of Directors. The Aircom 2014 Plan became effective upon its adoption by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aircom 2014 Plan.

On May 5, 2017, the Board of Directors of Aerkomm adopted the Aerkomm Inc. 2017 Equity Incentive Plan (the "Aerkomm 2017 Plan" and together with the Aircom 2015 Plan, the "Plans")) and the reservation of 1,000,000 shares of common stock for issuance under the Aerkomm 2017 Plan. On June 23, 2017, the Board of Directors voted to increase the number of shares of common stock reserved for issuance under the Aerkomm 2017 Plan to 2,000,000 shares. The Aerkomm 2017 Plan provides for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of the Company, as determined by the Compensation Committee of the Board of Directors (or, prior to the establishment of the Compensation Committee on January 23, 2018, the Board of Directors).

On June 23, 2017, the Board of Directors agreed to issue options for an aggregate of 291,000 shares under the Aerkomm 2017 Plan to certain officers and directors of the Company. The option agreements are classified into three types of vesting schedule, which includes, 1) 1/6 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/60 for the next 60 months on the same day of the month as the vesting start date; 2) 1/4 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/36 for the next 36 months on the same day of the month as the vesting start date; 3) 1/3 of the shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

On July 31, 2017, the Board of Directors approved to issue options for an aggregate of 109,000 shares under the Aerkomm 2017 Plan to 11 of its employees. 1/3 of these shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

On December 29, 2017, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On June 19, 2018, the Compensation Committee approved to issue options for 32,000 and 30,000 shares under the Aerkomm 2017 Plan to two of the Company executives. One-fourth of the 32,000 shares subject to the option shall vest on May 1, 2019, 2020, 2021 and 2022, respectively. One-third of the 30,000 shares subject to the option shall vest on May 29, 2019, 2020 and 2021, respectively.

On December 29, 2018, the Compensation Committee approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

Option price is determined by the Compensation Committee. The Aerkomm 2017 Plan has been adopted by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aerkomm 2017 Plan. The Aerkomm 2017 Plan was approved by the Company's stockholders on March 28, 2018.

Valuation and Expense Information

Measurement and recognition of compensation expense based on estimated fair values is required for all share-based payment awards made to its employees and directors including employee stock options. The Company recognized compensation expense of \$1,147,155 and \$1,740,447 (unaudited) for the nine-month periods ended December 31, 2018 and 2017, respectively, and \$275,806 for the three-month period ended March 31, 2018, and \$1,422,961 and \$1,749,447 for the years ended December 31, 2018 and 2017, respectively, related to such employee stock options.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 13 - Stock Based Compensation - Continued

Determining Fair Value

Valuation and amortization method

The Company uses the Black-Scholes option-pricing-model to estimate the fair value of stock options granted on the date of grant or modification and amortizes the fair value of stock-based compensation at the date of grant on a straight-line basis for recognizing stock compensation expense over the vesting period of the option.

Expected term

The expected term is the period of time that granted options are expected to be outstanding. The Company uses the SEC's simplified method for determining the option expected term based on the Company's historical data to estimate employee termination and options exercised.

Expected dividends

The Company does not plan to pay cash dividends before the options are expired. Therefore, the expected dividend yield used in the Black-Scholes option valuation model is zero.

Expected volatility

Since the Company has no historical volatility, it used the calculated value method which substitutes the historical volatility of a public company in the same industry to estimate the expected volatility of the Company's share price to measure the fair value of options granted under the Plans.

Risk-free interest rate

The Company based the risk-free interest rate used in the Black-Scholes option valuation model on the market yield in effect at the time of option grant provided in the Federal Reserve Board's Statistical Releases and historical publications on the Treasury constant maturities rates for the equivalent remaining terms for the Plans.

Forfeitures

The Company is required to estimate forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate option forfeitures and records share-based compensation expense only for those awards that are expected to vest.

The Company used the following assumptions to estimate the fair value of options granted in 2018 and 2017 under the Plans as follows:

Assumptions

Expected term	3 - 5 years
Expected volatility	40.11% - 61.78%
Expected dividends	0%
Risk-free interest rate	0.71% - 2.99%
Forfeiture rate	0% - 5%

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 13 - Stock Based Compensation - Continued

Aircom 2014 Plan

A summary of the number of shares, weighted average exercise price and estimated fair value of options for Aircom 2014 Plan as of December 31, 2018, March 31, 2018 and December 31, 2017 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2017	1,088,882	\$ 0.8087	\$ 0.2542
Granted	-	-	-
Exercised	(3,936)	0.0067	0.0019
Forfeited/Cancelled	(152,684)	3.2749	1.0296
Options outstanding at December 31, 2017	932,262	0.4081	0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at March 31, 2018	932,262	0.4081	0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2018	<u>932,262</u>	0.4081	0.1282
Options exercisable at December 31, 2017	<u>629,795</u>	0.2060	0.0645
Options exercisable at March 31, 2018	<u>681,587</u>	0.2200	0.0690
Options exercisable at December 31, 2018	<u>846,287</u>	0.3660	0.1150

A summary of the status of nonvested shares under Aircom 2014 Plan as of December 31, 2018, March 31, 2018 and December 31, 2017 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options nonvested at January 1, 2017	675,510	\$ 1.2985
Granted	-	-
Vested	(220,359)	0.5730
Forfeited/Cancelled	(152,684)	3.2749
Options nonvested at December 31, 2017	302,467	0.8315
Granted	-	-
Vested	(51,792)	0.4080
Forfeited/Cancelled	-	-
Options nonvested at March 31, 2018	250,675	0.9163
Granted	-	-
Vested	(164,700)	0.5748
Forfeited/Cancelled	-	-
Options nonvested at December 31, 2018	<u>85,975</u>	0.7305

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 13 - Stock Based Compensation - Continued

Aerkomm 2017 Plan

A summary of the number of shares, weighted average exercise price and estimated fair value of options under Aerkomm 2017 Plan as of December 31, 2018, March 31, 2018 and December 31, 2017 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2017	-	\$ -	\$ -
Granted	412,000	29.5771	17.7006
Exercised	-	-	-
Forfeited/Cancelled	(159,000)	27.5000	16.4610
Options outstanding at December 31, 2017	253,000	30.8825	17.5175
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	(48,000)	27.5000	16.4610
Options outstanding at March 31, 2018	205,000	31.6744	18.9522
Granted	78,000	19.7462	9.2500
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2018	<u>283,000</u>	28.3867	16.2781
Options exercisable at December 31, 2017	<u>84,750</u>	27.5840	17.0025
Options exercisable at March 31, 2018	<u>40,875</u>	28.2339	17.5839
Options exercisable at December 31, 2018	<u>111,589</u>	28.7052	16.5968

A summary of the status of nonvested shares under Aerkomm 2017 Plan as of December 31, 2018, March 31, 2018 and December 31, 2017 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options nonvested at January 1, 2017	-	\$ -
Granted	412,000	29.5771
Vested	(84,750)	27.8540
Forfeited/Cancelled	(159,000)	27.5000
Options nonvested at December 31, 2017	168,250	32.4080
Granted	-	-
Vested	(4,125)	27.5000
Forfeited/Cancelled	-	-
Options nonvested at March 31, 2018	164,125	32.5312
Granted	78,000	19.7462
Vested	(70,714)	28.9777
Forfeited/Cancelled	-	-
Options nonvested at December 31, 2018	<u>171,411</u>	28.1794

As of December 31, 2018, March 31, 2018 and December 31, 2017, there were approximately \$2,174,000, \$1,756,000 and \$5,057,000, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The Company expects to recognize that cost over a weighted average period of 1 - 5 years.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 14 - Commitments

As of December 31, 2018, the Company's significant commitments with unrelated parties and contingency are summarized as follows:

- 1) The Company's lease for its office in Fremont, California expires in May 2020. Rental expense for the nine-month periods ended December 31, 2018 and 2017 was \$58,014 and \$54,653 (unaudited), respectively, and was \$15,618, \$73,632 and \$71,152 for the three-month period ended March 31, 2018 and for the year ended December 31, 2018 and 2017, respectively. As of December 31, 2018, future minimum lease payment is \$77,352 for the next twelve-month period ending December 31, 2019.
- 2) The Company has another lease for its Japan office expiring June 2020. Rental expense for the nine-month periods ended December 31, 2018 and 2017 was \$28,578 and \$30,475 (unaudited), respectively, and was \$9,731, \$38,309 and \$55,043 for the three-month period ended March 31, 2018 and for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, future minimum lease payment obligation is \$35,572, including the 8% Japan consumption tax, for the next twelve-month period ending December 31, 2019.
- 3) The Company assumed a lease for its Taiwan office expiring October 31, 2018 as a result of the acquisition of Aircom Taiwan. Rental expense was approximately \$66,589 and \$0 for the nine-month periods ended December 31, 2018 and 2017, respectively, and was \$0, \$0 and \$0 for the three-month period ended March 31, 2018 and for the years ended December 31, 2018 and 2017, respectively. Aircom Taiwan is currently negotiating a renewal on the contract although there can be no assurance that a renewal lease will be signed on terms acceptable to the Company if at all. As of December 31, 2018, future minimum lease payment obligation is estimated to be \$88,206 for the next twelve-month period ending December 31, 2019.
- 4) The Company entered into a lease for its Hong Kong office on June 28, 2018, which expires on June 27, 2020. Rental expense for the nine-month periods ended December 31, 2018 was \$26,550. As of December 31, 2018, future minimum lease payment is \$45,974 for the next twelve-month period ending December 31, 2019.
- 5) On June 20, 2018, the Company entered into a Cooperation Framework Agreement with Shenzhen Yihe Culture Media Co., Ltd. ("Yihe"), the authorized agent of Guangdong Tengen Internet, pursuant to which Yihe will promote the development of strategic cooperation between the Company and Guangdong Tengen Internet. Specifically, Yihe agreed to assist the Company with public relations and advertising, such as market and brand promotion, as well as brand recognition in China (excluding Hong Kong, Macao and Taiwan), including but not limited to news dissemination, creative planning and support of campaigns, financial public relations and internet advertising. More specifically, Yihe will help the Company develop a working application of the WeChat Pay payment solution as well as WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes, and Yihe will assist the Company in integrating other Tencent internet-based original product offerings. As compensation, the Company agreed to pay Yihe RMB 8 million (approximately US\$1.2 million), with RMB 2,000,000 (approximately US\$309,000) paid on June 29, 2018 and the remaining RMB 6,000,000 (approximately US\$927,000) to be paid by August 15, 2018. However, the Company is currently working with Yihe to postpone the project as well as the remaining payment, although there can be no assurance that a postponement will be agreed upon on terms acceptable to the Company if at all.

NOTE 15 - Subsequent Events

Reverse Split

On January 16, 2019, the Company completed a 1-for-5 reverse split of the Company's issued and outstanding shares of common stock (the "Reverse Split"), which was completed by the filing of a Certificate of Change Pursuant to NRS 78.209 (the "Certificate of Change") with the Nevada Secretary of State on December 26, 2018. All of the references in these financial statements to authorized common stock and issued and outstanding common stock reflect the Reverse Split.

The Reverse Split was duly approved by the Board of Directors of the Company without stockholder approval, in accordance with the authority conferred by Section 78.207 of the Nevada Revised Statutes. The Certificate of Change also decreased the authorized number of shares of the Company's common stock from 450,000,000 shares to 90,000,000 shares, effective as of December 26, 2018.

Pursuant to the Reverse Split, holders of the Company's common stock are deemed to hold one (1) post-split share of the Company's common stock for every five (5) shares of the Company's common stock held. No fractional shares were issued in connection with the Reverse Split. Stockholders entitled to a fractional post-split share received in lieu thereof one (1) whole post-split share.

AERKOMM INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 and 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

AERKOMM INC.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AERKOMM INC. AND SUBSIDIARIES (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive loss, changes in stockholders’ equity, and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years ended December 31, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12 effective January 1, 2019. The Company also changed its method of accounting for leases in 2019 due to the adoption of ASU No. 216-02, Lease (Topic 842), as amended, effective January 1, 2019, using the modified retrospective approach.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Chen & Fan Accountancy Corporation

We have served as the Company’s auditor since 2017.

San Jose, California
March 27, 2020

AERKOMM INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

	December 31,	
	2019	2018
Assets		
Current Assets		
Cash	\$ 751,329	\$ 88,309
Accounts receivable	451,130	1,745,000
Inventories	3,038,564	895,014
Prepaid expenses	2,968,912	1,533,748
Other receivable – related party	920	-
Other receivable – others	1,446	2,616
Temporary deposit – related party	-	100,067
Other current assets	5,708	11,336
Total Current Assets	<u>7,218,009</u>	<u>4,376,090</u>
Property and Equipment		
Cost	2,777,144	2,709,543
Accumulated depreciation	(869,747)	(322,049)
	<u>1,907,397</u>	<u>2,387,494</u>
Prepayment for land	35,861,589	35,237,127
Construction in progress	-	416,231
Net Property and Equipment	<u>37,768,986</u>	<u>38,040,852</u>
Other Assets		
Restricted cash	225,500	-
Intangible asset, net	2,887,500	3,382,500
Goodwill	1,475,334	1,475,334
Right-of-use assets, net	302,602	-
Deposits – others	113,660	107,909
Total Other Assets	<u>5,004,596</u>	<u>4,965,743</u>
Total Assets	<u><u>\$ 49,991,591</u></u>	<u><u>\$ 47,382,685</u></u>
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities		
Accounts payable	\$ 912,729	\$ 2,032,974
Accrued expenses	245,140	412,165
Other payable - related parties	30,971	173,854
Other payable - others	1,801,109	2,580,958
Long-term loan – current	8,666	-
Lease liability – current – related parties	22,632	-
Lease liability – current - others	309,747	-
Total Current Liabilities	<u>3,330,994</u>	<u>5,199,951</u>
Long-term Liabilities		
Long-term loan – non-current	36,803	-
Prepayments from customer	762,000	762,000
Lease liability – non-current	45,199	-
Restricted stock deposit liability	1,000	1,000
Total Long-term Liabilities	<u>845,002</u>	<u>763,000</u>
Total Liabilities	<u>4,175,996</u>	<u>5,962,951</u>
Commitments		
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding as of December 31, 2019 and 2018	-	-
Common stock, \$0.001 par value, 90,000,000 shares authorized, 9,391,729 shares (excluding 149,162 unvested restricted shares) issued and outstanding as of December 31, 2019; 9,098,110 shares (excluding 149,162 unvested restricted shares) issued and outstanding as of December 31, 2018	9,392	9,098
Additional paid in capital	69,560,529	56,582,800
Accumulated deficits	(23,271,687)	(15,292,128)
Accumulated other comprehensive income (loss)	(482,639)	119,964
Total Stockholders' Equity	<u>45,815,595</u>	<u>41,419,734</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 49,991,591</u></u>	<u><u>\$ 47,382,685</u></u>

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

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2019 and 2018

	Year Ended December 31,	
	2019	2018
Revenue		
Net sales	\$ 1,599,864	\$ 1,730,000
Service income	-	15,000
Total Revenue	<u>1,599,864</u>	<u>1,745,000</u>
Cost and Expenses		
Cost of sales	1,587,222	1,661,849
Operating expenses	<u>8,569,231</u>	<u>8,096,033</u>
Total Cost and Expenses	<u>10,156,453</u>	<u>9,757,882</u>
Loss from Operations	<u>(8,556,589)</u>	<u>(8,012,882)</u>
Non-Operating Income (Loss)		
Foreign currency exchange gain (loss)	586,040	(128,362)
Other loss, net	<u>(5,759)</u>	<u>(2,973)</u>
Net Non-Operating Income (Loss)	<u>580,281</u>	<u>(131,335)</u>
Loss Before Income Taxes	(7,976,308)	(8,144,217)
Income Tax Expense	<u>3,251</u>	<u>4,123</u>
Net Loss	<u>(7,979,559)</u>	<u>(8,148,340)</u>
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments	<u>(602,603)</u>	<u>123,428</u>
Total Comprehensive Loss	<u>\$ (8,582,162)</u>	<u>\$ (8,024,912)</u>
Net Loss Per Common Share:		
Basic	<u>\$ (0.8597)</u>	<u>\$ (0.9205)</u>
Diluted	<u>\$ (0.8597)</u>	<u>\$ (0.9205)</u>
Weighted Average Shares Outstanding - Basic	<u>9,380,450</u>	<u>8,852,094</u>
Weighted Average Shares Outstanding - Diluted	<u>9,380,450</u>	<u>8,852,094</u>

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

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2019 and 2018

	Common Stock		Additional Paid in Capital	Subscribed Capital	Accumulated Deficits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balance as of January 1, 2018	8,283,733	\$ 8,284	\$ 13,517,991	\$ 75,040	\$ (7,143,788)	\$ (3,464)	\$ 6,454,063
Issuance of common stock	1,059,666	1,060	41,392,879	(75,040)	-	-	41,318,899
Restricted stock vested and transferred to common stock	8,286	8	48	-	-	-	56
Common stock transferred back to unvested restricted stock	(253,575)	(254)	(1,446)	-	-	-	(1,700)
Stock compensation expense	-	-	1,422,961	-	-	-	1,422,961
Issuance of stock warrant	-	-	250,367	-	-	-	250,367
Net loss for the year	-	-	-	-	(8,148,340)	-	(8,148,340)
Other comprehensive income	-	-	-	-	-	123,428	123,428
Balance as of December 31, 2018	9,098,110	\$ 9,098	\$ 56,582,800	\$ -	\$ (15,292,128)	\$ 119,964	\$ 41,419,734
Issuance of common stock	293,619	294	10,810,394	-	-	-	10,810,688
Stock compensation expense	-	-	2,342,802	-	-	-	2,342,802
Issuance of stock warrant	-	-	1,200	-	-	-	1,200
Cancellation of stock warrant	-	-	(176,667)	-	-	-	(176,667)
Net loss for the year	-	-	-	-	(7,979,559)	-	(7,979,559)
Other comprehensive loss	-	-	-	-	-	(602,603)	(602,603)
Balance as of December 31, 2019	9,391,729	\$ 9,392	\$ 69,560,529	\$ -	\$ (23,271,687)	\$ (482,639)	\$ 45,815,595

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

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	Year Ended December 31,	
	2019	2018
Cash Flows from Operating Activities		
Net loss	\$ (7,979,559)	\$ (8,148,340)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	1,042,698	716,481
Stock-based compensation	2,342,802	1,422,961
R&D expenses transferred from inventory and construction in progress	416,231	732,828
Reversal of consulting expense and interest expense on warrants	(121,733)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,293,870	(1,745,000)
Inventories	(2,143,550)	-
Prepaid expenses	(1,435,164)	(1,171,356)
Other receivable - related party	(920)	46,743
Other receivable - others	1,170	409,774
Temporary deposit - related party	100,067	(100,067)
Other current assets	5,628	(4,745)
Deposits - others	(5,751)	35,760
Accounts payable	(1,120,245)	2,032,974
Accrued expenses	(167,025)	(225,510)
Other payable - related parties	(142,883)	(146,541)
Other payable - others	(834,783)	(887,956)
Operating lease liability	19,828	-
Net Cash Used for Operating Activities	<u>(8,729,319)</u>	<u>(7,031,994)</u>
Cash Flows from Investing Activities		
Prepayment on land and satellite equipment	(624,462)	(33,850,000)
Purchase of property and equipment	(10,831)	(708,397)
Acquisitions of goodwill	-	(24,798)
Net Cash Used for Investing Activities	<u>(635,293)</u>	<u>(34,583,195)</u>
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	10,810,688	41,318,899
Proceeds from long-term loan	45,469	-
Payment on finance lease liability	(1,622)	-
Issuance of stock warrant	1,200	250,367
Repayment of short-term bank loan	-	(10,000)
Payment on repurchase of restricted stock	-	(700)
Net Cash Provided by Financing Activities	<u>10,855,735</u>	<u>41,558,566</u>
Net Increase (Decrease) in Cash	1,491,123	(56,623)
Cash and Restricted Cash, Beginning of Year	88,309	21,504
Foreign Currency Translation Effect on Cash	(602,603)	123,428
Cash and Restricted Cash, End of Year	<u>\$ 976,829</u>	<u>\$ 88,309</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ 4,061</u>
Cash paid during the year for interest	<u>\$ 5,791</u>	<u>\$ 2,121</u>
Non-cash Operating and Financing Activities:		
Restricted stock deposit liability transferred back from common stock	<u>\$ -</u>	<u>\$ (1,644)</u>
Net payment for acquisition of subsidiary during the year ended December 31, 2018:		
Cash	\$ -	\$ 14,527
Prepaid expenses	-	4,317
Other receivable - related party	-	43,448
Goodwill	-	24,798
Total payment for acquisition of subsidiary	<u>\$ -</u>	<u>\$ 87,090</u>

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

AERKOMM INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

NOTE 1 - Organization

Aerkomm Inc. (formerly Maple Tree Kids Inc.) (“Aerkomm”) was incorporated on August 14, 2013 in the State of Nevada. Aerkomm was a retail distribution company selling all of its products over the internet in the United States, operating in the infant and toddler products business market. Aerkomm’s common stock is quoted for trading on the OTC Markets Group Inc. OTCQX Best Market under the symbol “AKOM.” On July 17, 2019, the French *Autorité des Marchés Financiers* (the “AMF”) granted visa number 19-372 on the prospectus relating to the admission of Aerkomm’s common stock to list and trade on the Professional Segment of the regulated market of Euronext Paris (“Euronext Paris”). Aerkomm’s common stock began trading on Euronext Paris on July 23, 2019 under the symbol “AKOM” and is denominated in Euros on Euronext Paris. This listing did not alter Aerkomm’s share count, capital structure, or current common stock listing on the OTCQX, where it is also traded (in US dollars) under the symbol “AKOM.”

On December 28, 2016, Aircom Pacific Inc. (“Aircom”) purchased approximately 86.3% of Aerkomm’s issued and outstanding common stock as of the closing date of purchase. As a result of the transaction, Aircom became the controlling shareholder of Aerkomm. Aircom was incorporated on September 29, 2014 under the laws of the State of California.

On February 13, 2017, Aerkomm entered into a share exchange agreement (“Exchange Agreement”) with Aircom and its shareholders, pursuant to which Aerkomm acquired 100% of the issued and outstanding capital stock of Aircom in exchange for approximately 99.7% of the issued and outstanding capital stock of Aerkomm. As a result of the share exchange, Aircom became a wholly-owned subsidiary of Aerkomm, and the former shareholders of Aircom became the holders of approximately 99.7% of Aerkomm’s issued and outstanding capital stock.

On December 31, 2014, Aircom acquired a newly incorporated subsidiary, Aircom Pacific Ltd. (“Aircom Seychelles”), a corporation formed under the laws of the Republic of Seychelles. Aircom Seychelles was formed to facilitate Aircom’s global corporate structure for both business operations and tax planning. Presently, Aircom Seychelles has no operations. Aircom is working with corporate and tax advisers in finalizing its global corporate structure and has not yet concluded its final plan.

On October 17, 2016, Aircom acquired a wholly owned subsidiary, Aircom Pacific Inc. Limited (“Aircom HK”), a corporation formed under the laws of Hong Kong. The purpose of Aircom HK is to conduct Aircom’s business and operations in Hong Kong. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in Hong Kong. Aircom HK is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to Hong Kong-based airlines via Aircom HK and teleports located in Hong Kong.

On December 15, 2016, Aircom acquired a wholly owned subsidiary, Aircom Japan, Inc. (“Aircom Japan”), a corporation formed under the laws of Japan. The purpose of Aircom Japan is to conduct business development and operations located within Japan. Aircom Japan is in the process of applying for, and will be the holder of, Satellite Communication Blanket License in Japan, which is necessary for Aircom to provide services within Japan. Aircom Japan will also provide local supports to airlines operating within the territory of Japan.

Aircom Telecom LLC (“Aircom Taiwan”), which became a wholly owned subsidiary of Aircom in December 2017, was organized under the laws of Taiwan on June 29, 2016. Aircom Taiwan is responsible for Aircom’s business development efforts and general operations within Taiwan.

On June 13, 2018, Aerkomm established a new wholly owned subsidiary, Aerkomm Taiwan Inc. (“Aerkomm Taiwan”), a corporation formed under the laws of Taiwan. The purpose of Aerkomm Taiwan is to purchase a parcel of land and raise sufficient fund for ground station building and operate the ground station for data processing (although that cannot be guaranteed).

On November 15, 2018, Aircom Taiwan acquired a wholly owned subsidiary, Beijing Yatai Communication Co., Ltd. (“Aircom Beijing”), a corporation formed under the laws of China. The purpose of Aircom Beijing is to conduct Aircom’s business and operations in China. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in China as most business conducted in China requires a local registered company. Aircom Beijing is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to China-based airlines via Aircom Beijing and teleports located in China.

On October 31, 2019, Aircom Seychelles established a new a wholly owned subsidiary, Aerkomm Pacific Limited (“Aerkomm Malta”), a corporation formed under the laws of Malta. The purpose of Aerkomm Malta is to conduct Aircom’s business and operations and to engage with suppliers and potential airlines customers in the European Union.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 1 - Organization - Continued

Aerkomm and its subsidiaries (the “Company”) are full-service, development stage providers of in-flight entertainment and connectivity solutions with their initial market in the Asian Pacific region.

The Company has not generated significant revenues, excluding non-recurring revenues in 2018 and 2019, and will incur additional expenses as a result of being a public reporting company. Currently, the Company has taken measures that management believes will improve its financial position by financing activities, including through ongoing public offerings, short-term borrowings and equity contributions. Two of the Company’s current shareholders (the “Lenders”) each committed to provide to the Company a \$10 million bridge loan (together, the “Loans”) for an aggregate principal amount of \$20 million, to bridge the Company’s cash flow needs prior to its obtaining a mortgage loan to be secured by a parcel of land (the “Land”) the Company purchased in Taiwan. The Lenders also agreed to an earlier closing of up to 25% of the principal amounts of the Loans upon the Company’s request prior to the time that title to the Land is vested in the Company’s subsidiary, Aerkomm Taiwan, to pay the outstanding payable to the Company’s vendors. With the \$20 million in Loans committed by the Lenders and future capital raising, the Company believes its working capital will be adequate to sustain its operations for the next twelve months by the committed Loans from its shareholders. On March 20, 2020, the Company borrowed approximately \$2.64 million (NT\$80,000,000) under the Loans from one of the Lenders.

On January 16, 2019, the Company completed a 1-for-5 reverse split of the Company’s authorized, issued and outstanding shares of common stock, which was completed by the filing of a Certificate of Change Pursuant to NRS 78.209 with the Nevada Secretary of State on December 26, 2018 (see Note 12). All of the references in these financial statements to authorized common stock and issued and outstanding common stock have been adjusted to reflect this reverse split.

NOTE 2 - Summary of Significant Accounting Policies

Changes in Fiscal Year

On March 18, 2018, the Company’s Board of Directors approved a change in the Company’s fiscal year end from December 31 to March 31. On February 12, 2019, the Company’s Board of Directors approved a change in the Company’s fiscal year end from March 31 to December 31. Year-over-year financial data continue to be comparative to prior year as the twelve months that comprise in the new fiscal year are the same as those in the Company’s historical financial statements.

Principle of Consolidation

Aerkomm consolidates the accounts of its subsidiaries, Aircom, Aircom Seychelles, Aircom HK, Aircom Japan, Aircom Taiwan, Aerkomm Taiwan Aircom Beijing and Aerkomm Malta. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications of Prior Period Presentation

Certain prior period balance sheet and income statement amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash in banks. As of December 31, 2019 and 2018, the total balance of cash in bank exceeding the amount insured by the Federal Deposit Insurance Corporation (FDIC) for the Company was approximately \$233,000 and \$0, respectively. The balance of cash deposited in foreign financial institutions exceeding the amount insured by local insurance is approximately \$37,000 and \$0 as of December 31, 2019 and December 31, 2018, respectively.

The Company performs ongoing credit evaluation of its customers and requires no collateral. An allowance for doubtful accounts is provided based on a review of the collectability of accounts receivable. The Company determines the amount of allowance for doubtful accounts by examining its historical collection experience and current trends in the credit quality of its customers as well as its internal credit policies. Actual credit losses may differ from management’s estimates.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 2 - Summary of Significant Accounting Policies - Continued

Inventories

Inventories are recorded at the lower of weighted-average cost or net realizable value. The Company assesses the impact of changing technology on its inventory on hand and writes off inventories that are considered obsolete. Estimated losses on scrap and slow-moving items are recognized in the allowance for losses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. When value impairment is determined, the related assets are stated at the lower of fair value or book value. Significant additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed by using the straight-line and double declining methods over the following estimated service lives: ground station equipment – 5 years, computer equipment - 3 to 5 years, furniture and fixtures - 5 years, satellite equipment – 5 years, vehicles – 5 years and lease improvement – 5 years.

Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss credited or charged to income in the period of sale or disposal.

The Company reviews the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. It determined that there was no impairment loss for the year ended December 31, 2019.

Right-of-Use Asset and Lease Liability

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”), which modifies lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases and finance leases under previous accounting standards and disclosing key information about leasing arrangements.

A lessee should recognize the lease liability to make lease payments and the right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases and finance leases, a right-of-use asset and a lease liability are initially measured at the present value of the lease payments by discount rates. The Company’s lease discount rates are generally based on its incremental borrowing rate, as the discount rates implicit in the Company’s leases is readily determinable. Operating leases are included in operating lease right-of-use assets and lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment and lease liability in our consolidated balance sheets. Lease expense for operating expense payments is recognized on a straight-line basis over the lease term. Interest and amortization expenses are recognized for finance leases on a straight-line basis over the lease term.

For the lease within a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The Company adopted ASU 2016-02 effective January 1, 2019.

Goodwill and Purchased Intangible Assets

The Company’s goodwill represents the amount by which the total purchase price paid exceeded the estimated fair value of net assets acquired from acquisition of subsidiaries. The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment.

Purchased intangible assets with finite life are amortized on the straight-line basis over the estimated useful lives of respective assets. Purchased intangible assets with indefinite life are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Purchased intangible asset consists of satellite system software and is amortized over 10 years.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 2 - Summary of Significant Accounting Policies - Continued

Fair Value of Financial Instruments

The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions.

The carrying amounts of the Company's cash, accounts receivable, other receivable, accounts payable, short-term loan, other payable and long-term loan approximated their fair value due to the short-term nature of these financial instruments. The Company's long-term loan and lease payable approximated the carrying amount as its interest rate is considered as approximate to the current rate for comparable loans and leases, respectively. There were no outstanding derivative financial instruments as of December 31, 2019.

Revenue Recognition

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. The Company's major revenue for the year ended December 31, 2018 was the development of a small cell server terminal which will be utilized in the construction of a satellite-based ground communication system networks. The Company also had minor revenue from providing installation and testing services of a satellite-based ground connectivity system. The Company's revenue for the year ended December 31, 2019 was the sales of compact adaptor for smartphone that allows users to turn their smartphone into a satellite smartphone to provide reliable connectivity beyond the coverage of traditional networks. The majority of the Company's revenue is recognized at a point in time when product is shipped or service is provided to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods, which includes estimates for variable consideration. During 2019, the Company adopted the provisions of ASU 2014-09 Revenue from Contract with Customers (Topic 606) and the principal versus agent guidance within the new revenue standard. The application of Topic 606 (versus prior U.S. GAAP) did not have a significant impact on our comparative financial statements as presented.

Research and Development Costs

Research and development costs are charged to operating expenses as incurred. For the years ended December 31, 2019 and 2018, the Company incurred \$416,231 and \$1,541,952 of research and development costs, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Adjustments to prior period's income tax liabilities are added to or deducted from the current period's tax provision.

The Company follows FASB guidance on uncertain tax positions and has analyzed its filing positions in all the federal, state and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in those jurisdictions. The Company files income tax returns in the US federal, state and foreign jurisdictions where it conducts business. It is not subject to income tax examinations by US federal, state and local tax authorities for years before 2015. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on its consolidated financial position, results of operations, or cash flows. Therefore, no reserves for uncertain tax positions have been recorded. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months.

The Company's policy for recording interest and penalties associated with any uncertain tax positions is to record such items as a component of income before taxes. Penalties and interest paid or received, if any, are recorded as part of other operating expenses in the consolidated statement of operations.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 2 - Summary of Significant Accounting Policies - Continued

Foreign Currency Transactions

Foreign currency transactions are recorded in U.S. dollars at the exchange rates in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. At the end of each period, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rates with the resulting gains or losses recognized in income for the period.

Translation Adjustments

If a foreign subsidiary's functional currency is the local currency, translation adjustments will result from the process of translating the subsidiary's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported under other comprehensive income (loss) as a separate component of stockholders' equity.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include stock warrants and outstanding stock options, shares to be purchased by employees under the Company's employee stock purchase plan.

Subsequent Events

The Company has evaluated events and transactions after the reported period up to March 27, 2020, the date on which these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2019 have been included in these consolidated financial statements.

NOTE 3 - Recent Accounting Pronouncements

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12 to simplify the accounting in ASC 740, Income Taxes. This guidance removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This ASU will be effective beginning in the first quarter of the Company's fiscal year 2021. Early adoption is permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. The Company is currently evaluating the impact this ASU will have on the financial statements and related disclosures, as well as the timing of adoption.

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which modifies the measurement of expected credit losses of certain financial instruments. In February 2020, the FASB issued ASU 2020-02 and delayed the effective date of Topic 326 until fiscal year beginning after December 15, 2022. The Company is currently evaluating the impact of adopting ASU 2016-13 on its consolidated financial statements.

Intangibles

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other" (Topic 350): Simplifying the Test for Goodwill Impairment, which goodwill shall be tested at least annually for impairment at a level of reporting referred to as a reporting unit. ASU 2017-04 will be effective for annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2017-04 on its consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 4 - Inventories

As of December 31, 2019 and 2018, inventories consisted of the following:

	<u>2019</u>	<u>2018</u>
Satellite equipment for sale under construction	\$ 3,038,564	\$ 895,014
Supplies	5,230	5,273
	<u>3,043,794</u>	<u>900,287</u>
Allowance for inventory loss	(5,230)	(5,273)
Net	<u><u>\$ 3,038,564</u></u>	<u><u>\$ 895,014</u></u>

NOTE 5 - Property and Equipment

For the years ended December 31, 2019 and 2018, the changes in cost of property and equipment were as follows:

	Computer Software and Equipment	Furniture and Fixture	Satellite Equipment	Ground Station Equipment	Vehicle	Leasehold Improvement	Total
January 1, 2018	\$ 119,903	\$ 10,006	\$ 275,410	\$ -	\$ -	\$ -	\$ 405,319
Addition	201,167	23,338	-	1,854,027	141,971	83,721	2,304,224
December 31, 2018	321,070	33,344	275,410	1,854,027	141,971	83,721	2,709,543
Addition	7,793	3,038	-	-	56,770	-	67,601
December 31, 2019	<u><u>\$ 328,863</u></u>	<u><u>\$ 36,382</u></u>	<u><u>\$ 275,410</u></u>	<u><u>\$ 1,854,027</u></u>	<u><u>\$ 198,741</u></u>	<u><u>\$ 83,721</u></u>	<u><u>\$ 2,777,144</u></u>

For the years ended December 31, 2019 and 2018, the changes in accumulated depreciation for property and equipment were as follows:

	Computer Software and Equipment	Furniture and Fixture	Satellite Equipment	Ground Station Equipment	Vehicle	Leasehold Improvement	Total
January 1, 2018	\$ 56,763	\$ 6,218	\$ 37,611	\$ -	\$ -	\$ -	\$ 100,592
Addition	44,366	3,153	53,749	92,701	21,980	5,508	221,457
December 31, 2018	101,129	9,371	91,360	92,701	21,980	5,508	322,049
Addition	64,266	6,366	55,082	370,806	33,305	17,873	547,698
December 31, 2019	<u><u>\$ 165,395</u></u>	<u><u>\$ 15,737</u></u>	<u><u>\$ 146,442</u></u>	<u><u>\$ 463,507</u></u>	<u><u>\$ 55,285</u></u>	<u><u>\$ 23,381</u></u>	<u><u>\$ 869,747</u></u>

Depreciation expense was \$547,698 and \$221,457 for the years ended December 31, 2019 and 2018, respectively.

As of January 1, 2018, construction in progress of \$3,250,000 was the payment for the construction of ground station equipment relating to satellite communication system and in-flight system for the Company's internal use. As of December 31, 2018, the balance of construction in progress was \$416,231 after the Company incurred additional \$637,071 in construction in progress, while transferred construction in progress in the amount of \$721,799 to R&D expenses, \$895,014 to inventories and \$1,854,027 to ground station equipment. As of December 31, 2019, the balance of construction in progress was \$0 after the Company transferred \$416,231 to R&D expenses.

On May 1, 2018, the Company and Aerkomm Taiwan entered into a binding memorandum of understanding with Tsai Ming-Yin (the "Seller") with respect to the acquisition by Aerkomm Taiwan of a parcel of land located in Taiwan. The land is expected to be used to build a satellite ground station and data center. On July 10, 2018, the Company, Aerkomm Taiwan and the Seller entered into a certain real estate sales contract regarding this acquisition. Pursuant to the terms of the contract, and subsequent amendments on July 30, 2018, September 4, 2018, November 2, 2018 and January 3, 2019, the Company paid to the seller in installments refundable prepayment of \$33,850,000 as of December 31, 2018. On July 2, 2019, the Company paid the remaining purchase price of \$624,462. As of December 31, 2019 and 2018, the estimated commission payable for the land purchase in the amount of \$1,387,127 was recorded to the cost of land and the payment to be paid after the full payment of the Land acquisition price until no later than May 31, 2021.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 6 - Intangible Asset, Net

For the years ended December 31, 2019 and 2018, the changes in cost and accumulated amortization for intangible asset were as follows:

	Satellite System Software	Accumulated Amortization	Net Cost
January 1, 2018	\$ 4,950,000	\$ (1,072,500)	\$ 3,877,500
Addition	-	(495,000)	(495,000)
December 31, 2018	4,950,000	(1,567,500)	3,382,500
Addition	-	(495,000)	(495,000)
December 31, 2019	<u>\$ 4,950,000</u>	<u>\$ (2,062,500)</u>	<u>\$ 2,887,500</u>

Amortization expense was \$495,000 for each of the years ended December 31, 2019 and 2018.

NOTE 7 - Restricted Cash

On September 9, 2019, the Company entered into a liquidity agreement with a security company (“the Liquidity Provider”) in France, which is consistent with customary practice in the French securities market. The liquidity agreement complies with applicable laws and regulations in France and authorizes the Liquidity Provider to carry out market purchases and sales of shares of our common stock on the Euronext Paris market. To enable the Liquidity Provider to carry out the interventions provided for in the contract, the Company contributed approximately \$225,500 (200,000 euros) into the account. The transaction will be initiated from the beginning of 2020, and the Company will pay the compensation of 20,000 euros in advance by semi-annual installments at the beginning of the semi-annual period of the agreement. The liquidity agreement has a term of one year and will renew automatically unless otherwise terminated by either party.

NOTE 8 - Operating and Finance Leases

A. Lease term and discount rate:

The weighted-average remaining lease term (in years) and discount rate related to the leases were as follows:

Weighted-average remaining lease term	
Operating lease	0.64 Year
Finance lease	4.85 Years
Weighted-average discount rate	
Operating lease	6.00%
Finance lease	3.82%

B. The balances for the operating and finance leases presented as follows within the balance sheet as of December 31, 2019:

Operating Leases

Right-of-use assets	\$ 302,602
Lease liability - current	\$ 322,430

Finance Leases

Property and equipment, at cost	\$ 56,770
Accumulated depreciation	(1,569)
Property and equipment, net	<u>\$ 55,201</u>
Lease liability - current	\$ 9,949
Lease liability – non-current	45,199
Total finance lease liabilities	<u>\$ 55,148</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 8 - Operating and Finance Leases - Continued

The components of lease expense are as follows within the statement of operations and comprehensive loss for the year ended December 31, 2019:

Operating Leases

Lease expense	\$ 479,389
Sublease rental income	(9,173)
Net lease expense	<u>\$ 470,217</u>

Finance Leases

Amortization of property and equipment	\$ 1,569
Interest on lease liabilities	348
Total finance lease cost	<u>\$ 1,917</u>

Supplemental cash flow information related to leases for the year ended December 31, 2019 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash outflows from operating leases	\$ 439,271
Operating cash outflows from finance lease	\$ 348
Financing cash outflows from finance lease	<u>\$ 1,622</u>

Leased assets obtained in exchange for lease liabilities:

Operating leases	\$ 722,423
Finance lease	<u>\$ 56,770</u>

Maturity of lease liabilities:

Operating Leases

	Related Party	Others	Total
January 1, 2020 – December 31, 2020	\$ 23,029	\$ 307,028	\$ 330,057
Total lease payments	\$ 23,029	\$ 307,028	\$ 330,057
Less: Imputed interest	(397)	(7,230)	(7,627)
Present value of lease liabilities	\$ 22,632	\$ 299,798	\$ 322,430
Current portion	22,632	299,798	322,430
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Finance Leases

	Related Party	Others	Total
January 1, 2020 – December 31, 2020	\$ -	\$ 11,883	\$ 11,883
January 1, 2021 – December 31, 2021	-	11,883	11,883
January 1, 2022 – December 31, 2022	-	11,883	11,883
January 1, 2023 – December 31, 2023	-	11,883	11,883
January 1, 2024 – December 31, 2024	-	13,246	13,246
Total lease payments	\$ -	\$ 60,778	\$ 60,778
Less: Imputed interest	-	(5,630)	(5,630)
Present value of lease liabilities	\$ -	\$ 55,148	\$ 55,148
Current portion	-	(9,949)	(9,949)
Non-current portion	<u>\$ -</u>	<u>\$ 45,199</u>	<u>\$ 45,199</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 9 - Long-term Loan

The Company has a car loan credit line of NT\$1,500,000 (approximately US\$48,371), which matures on May 21, 2024, from a Taiwan financing company with annual interest rate of 9.7%. The installment payment plan is 60 months to pay off the balance on the 21st of each month. Future installment payments as of December 31, 2019 are as follows:

Year ending December 31,	
2020	\$ 12,698
2021	12,698
2022	12,698
2023	12,698
2024	5,292
Total installment payments	56,084
Less: Imputed interest	(10,615)
Present value of long-term loan	45,469
Current portion	(8,666)
Non-current portion	<u>\$ 36,803</u>

NOTE 10 - Prepayment from Customer

On March 9, 2015, the Company entered into a 10-year purchase agreement with Klingon Aerospace, Inc. (“Klingon”), which was formerly named as Luxe Electronic Co., Ltd. In accordance with the terms of this agreement, Klingon agreed to purchase from the Company an initial order of onboard equipment comprising an onboard system for a purchase price of \$909,000, with payments to be made in accordance with a specific milestones schedule. As of December 31, 2019 and 2018, the Company received \$762,000 from Klingon in milestone payments towards the equipment purchase price. As of December 31, 2019, the project is still ongoing.

NOTE 11 - Income Taxes

Income tax expense for the years ended December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Current:		
Federal	\$ -	\$ 61
State	1,600	2,400
Foreign	1,651	1,662
Total	<u>\$ 3,251</u>	<u>\$ 4,123</u>

The following table presents a reconciliation of the Company’s income tax at statutory tax rate and income tax at effective tax rate for the years ended December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Tax benefit at statutory rate	\$ (1,764,624)	\$ (1,710,626)
Net operating loss carryforwards (NOLs)	1,361,542	1,483,725
Stock-based compensation expense	492,000	298,819
Foreign investment losses	127,388	140,000
Amortization and depreciation expense	52,130	(40,100)
Accrued consulting expense	(138,000)	-
Unrealized exchange gain	(97,373)	-
Accrued payroll	(35,400)	(6,500)
Accrued R&D expense	-	(168,000)
Others	5,588	6,805
Tax expense at effective tax rate	<u>\$ 3,251</u>	<u>\$ 4,123</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 11 - Income Taxes - Continued

Deferred tax assets (liability) as of December 31, 2019 and 2018 consist approximately of:

	<u>2019</u>	<u>2018</u>
Net operating loss carryforwards (NOLs)	\$ 6,388,000	\$ 5,632,000
Stock-based compensation expense	1,549,000	893,000
Accrued expenses and unpaid expense payable	53,000	184,000
Tax credit carryforwards	68,000	68,000
Excess of tax amortization over book amortization	(619,000)	(818,000)
Unrealized/realized exchange gain	(106,000)	-
Others	(104,000)	131,000
Gross	7,229,000	6,090,000
Valuation allowance	(7,229,000)	(6,090,000)
Net	<u>\$ -</u>	<u>\$ -</u>

Management does not believe the deferred tax assets will be utilized in the near future; therefore, a full valuation allowance is provided. The net change in deferred tax assets valuation allowance was an increase of approximately \$1,139,000 and \$3,691,000 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, and December 31, 2018, the Company had federal NOLs of approximately \$8,243,000 available to reduce future federal taxable income, expiring in 2037, and additional federal NOLs of approximately \$11,314,000 and \$5,743,000, respectively, were generated and will be carried forward indefinitely to reduce future federal taxable income. As of December 31, 2019 and 2018, the Company had State NOLs of approximately \$21,117,000 and, \$15,486,000, respectively, available to reduce future state taxable income, expiring in 2039.

As of December 31, 2019 and 2018, the Company has Japan NOLs of approximately \$350,000 and \$319,000 available to reduce future Japan taxable income, expiring in 2029.

As of December 31, 2019 and 2018, the Company has Taiwan NOLs of approximately \$1,898,000 and \$879,000 available to reduce future Taiwan taxable income, expiring in 2029.

As of December 31, 2019 and 2018, the Company had approximately \$37,000 of federal research and development tax credit, available to offset future federal income tax. The credit begins to expire in 2034 if not utilized. As of December 31, 2019 and 2018, the Company had approximately \$39,000 of California state research and development tax credit available to offset future California state income tax. The credit can be carried forward indefinitely.

The Company's ability to utilize its federal and state NOLs to offset future income taxes is subject to restrictions resulting from its prior change in ownership as defined by Internal Revenue Code Section 382. The Company does not expect to incur the limitation on NOLs utilization in future annual usage.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 12 - Capital Stock

1) Preferred Stock:

The Company is authorized to issue 50,000,000 shares of preferred stock, with par value of \$0.001. As of December 31, 2019, there were no preferred stock shares outstanding. The Board of Directors has the authority to issue preferred stock in one or more series, and in connection with the creation of any such series, by resolutions providing for the issuance of the shares thereof, to determine dividends, voting rights, conversion rights, redemption privileges and liquidation preferences.

2) Common Stock:

The Company is authorized to issue 90,000,000 shares of common stock, reflecting a reverse split in the ratio of 1 for 5 effective January 16, 2019, with par value of \$0.001.

On February 13, 2017, all of Aircom’s 5,513,334 restricted shares were converted to 2,055,947 shares of Aerkomm’s restricted stock at the ratio of 2.681651 to 1, pursuant to the Exchange Agreement (see Note 1). As of December 31, 2019 and 2018, the restricted shares consisted of the following:

	December 31, 2019	December 31, 2018
Restricted stock - vested	1,802,373	1,802,373
Restricted stock - unvested	149,162	149,162
Total restricted stock	<u>1,951,535</u>	<u>1,951,535</u>

The unvested shares of restricted stock were recorded under a deposit liability account awaiting future conversion to common stock when they become vested. On December 21, 2018, the Company repurchased and cancelled an aggregate of 104,413 unvested shares of restricted common stock for a purchase price of \$0.0067 per share.

On June 30, 2018, the Company issued 8,000 and 2,000 shares of its common stock for the aggregate amount of \$199,500 to Integra Consulting Group LLC (“Integra”) and Anthony D. Altavilla, principal of Integra, respectively, according to the Consulting Agreement signed on November 15, 2017 between the Company and Integra.

As of March 31, 2018, the Company completed its private placement offering of 24,666 shares of its common stock at a price of \$28.00 per share for the aggregate amount of \$690,648 and the subscribed capital of \$75,040 were transferred to common shares subsequently in April and May 2018.

On May 14, 2018, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Boustead Securities, LLC (“Boustead”) in connection with the public offering, issuance and sale of up to 1,411,782 shares of the Company’s common stock on a best efforts basis, with a minimum requirement of 117,647 shares, at the public offering price of \$42.50 (originally \$8.5 per share before 1 to 5 reverse split) per share, less underwriting discounts, for minimum gross proceeds of \$5,000,000 and up to a maximum of \$60,000,000. As of December 31, 2018, pursuant to the Underwriting Agreement, the Company had issued an aggregate of 1,025,000 shares of common stock (including 19 shares that were added as a result of rounding in connection with the one-for-five reverse split concluded on January 16, 2019) for gross proceeds of \$43,560,894, or net proceeds of \$40,503,791.

On July 2, 2019, the board of directors approved a supplement to the engagement agreement with one of the Company’s service providers pursuant to which the Company agreed to issue to the service provider 23,972 restricted shares of the Company’s common stock in consideration of that service provider’s agreement to defer the receipt of payment of certain accrued fees amounted to \$94,930 due to the service provider.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 12 - Capital Stock - Continued

3) Stock Warrant:

The Company has entered into a service agreement which provides for the issuance of warrants to purchase shares of its common stock to a service provider as payment for services. The warrants allow the service provider to purchase a number of shares of Aerkomm common stock equal to the service fee value divided by 85% of the share price paid by investors for Aerkomm’s common stock in the first subsequent qualifying equity financing event, at an exercise price of \$0.05 per share. For the year ended December 31, 2019 and 2018, Aerkomm has issued additional stock warrants exercisable for \$0 and \$56,667, respectively, in value of Aerkomm common stock to the service provider as payment for additional services. As of June 28, 2019, these warrants are equivalent to 4,891 shares of the Company’s common stock. On June 29, 2019, the Company settled with the service provider to cancel all warrants amounting to \$176,667 with \$75,000 in three installments payable on July 3, August 1, and September 1, 2019 and all three installments were paid on schedule.

In connection with the Underwriting Agreement with Boustead, the Company agreed to issue to Boustead warrants to purchase a number of the Company’s shares equal to 6% of the gross proceeds of the public offering, which shall be exercisable, in whole or in part, commencing on April 13, 2018 and expiring on the five-year anniversary at an initial exercise price of \$53.125 per share, which is equal to 125% of the offering price paid by investors. As of December 31, 2019 and 2018, the Company issued warrants to Boustead to purchase 77,680 and 61,498 shares, respectively, of the Company’s stock and the total warrant value is \$194,900 and \$193,700, respectively. For the year ended December 31, 2019, the Company recorded \$1,200 of increase in the additional paid-in capital as the adjustment for the issuance costs of these stock warrants.

NOTE 13 - Major Customer

The Company has one major customer, which represents 10% or more of the total sales of the Company. Sales to and account receivable from the customer for the year ended and as of December 31, 2019 were \$1,599,864 and \$451,130, respectively. Sales to and account receivable from the customer for the year ended and as of December 31, 2018 were \$1,730,000.

NOTE 14 - Major Vendors

The Company has two major vendors, each of which represents 10% or more of the total purchases of the Company for 2019 and 2018. Purchase from and accounts payable balance to vendors for the years ended and as of December 31, 2019 and 2018 were approximately as follows:

Vendor	Purchase		Accounts Payable	
	2019	2018	2019	2018
A	\$ 2,143,550	\$ 895,014	\$ 658,200	\$ 382,974
B	1,587,222	1,650,000	254,529	1,650,000
Total	<u>\$ 3,730,772</u>	<u>\$ 2,545,014</u>	<u>\$ 912,729</u>	<u>\$ 2,032,974</u>

NOTE 15 - Related Party Transactions

A. Name of related parties and relationships with the Company:

Related Party	Relationship
Dmedia Holding LP (“Dmedia”)	23.45% stockholder
Jeffrey Wun	Shareholder and CEO of Aerkomm and Aircom
Y. Tristan Kuo	CFO of Aerkomm and Aircom
Louis Giordimaina	COO - Aviation of Aircom
Yih Lieh (Giretsu) Shih	President of Aircom Japan
Chien Ming Tseng	President of Aircom Taiwan
Hao Wei Peng	Employee of Aircom Taiwan and founding owner of Aircom Taiwan prior to 12/19/2017
EE Square Japan (“EESQUARE”)	Yih Lieh (Giretsu) Shih is the Director
Bummy Wu	Shareholder
Wealth Wide Int’l Ltd. (“WWI”)	Bunny Wu, a shareholder, is the Chairman
WISD Intellectual Property Agency, Ltd. (“WISD”)	Patrick Li, Director of Aircom, is the Chairman; Chih-Ming (Albert) Hsu, Director of the Company, is a Director

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 15 - Related Party Transactions - Continued

B. Significant related party transactions:

The Company has extensive transactions with its related parties. It is possible that the terms of these transactions are not the same as those which would result from transactions among wholly unrelated parties.

a. As of December 31

	<u>2019</u>	<u>2018</u>
Other receivable from EESQAURE ¹	\$ 920	\$ -
Temporary deposit to Bummy Wu ²	\$ -	\$ 100,067
Lease liability - current to WWI ³	\$ 22,632	\$ -
Other payable to:		
Y. Tristan Kuo ⁴	\$ 4,799	\$ 3,787
Jeffrey Wun ⁴	7,510	46,236
Louis Giordimaina ⁴	3,366	6,071
WWI ³	-	39,224
Chien Ming Tseng ⁴	-	47,880
Yih Lieh (Giretsu) Shih ⁴	-	15,497
Others ⁵	15,296	15,159
Total	<u>\$ 30,971</u>	<u>\$ 173,854</u>

1. Represents receivable from EESQAURE due to Japan office sublease agreement on March 1, 2019. The monthly rent is ¥100,000 (approximately \$920) and will be expired March 4, 2021.
2. In November 2018, Aircom HK's bank account was temporarily frozen by its local bank in Hong Kong (the "HK bank") due to Aircom HK's failure to timely submit to the HK bank corporate documentation relating to the corporate organization and good standing of Aircom HK's parent company, Aircom, and Aircom's parent company, Aerkomm. To avoid a potential cash flow issue resulting from this temporary account freeze, Aircom HK withdrew \$100,067 in cash from the HK bank and temporarily deposited it in an existing related party's bank account at a different bank for safe keeping. The Aircom HK's bank account with the HK bank was reactivated by the HK bank subsequently and the cash that was transferred to the related party's account was redeposited into Aircom HK's bank account at the HK bank in February 2019.
3. Represents rent for a warehouse in Hong Kong to store the Company's hardware and another rent for the Hong Kong office starting June 28, 2018.
4. Represents payable to employees as a result of regular operating activities.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 15 - Related Party Transactions - Continued

b. For the years ended December 31, 2019 and 2018:

	Year Ended December 31,	
	2019	2018
Rental income charged from EESQAURE	\$ 9,173	\$ -
Rental expense charged by WWI	45,790	28,836
Interest expense charged by Dmedia	1,744	3,116
Consulting fee paid to Louis Giordimaina	-	222,246
Legal fee paid to WISD	-	10,779

Aircom Japan entered into a sublease agreement with EESQUARE for the period between March 5, 2019 and March 4, 2021. Pursuant to the terms of this lease agreement, EESQAURE pays Aircom Japan a rental fee of approximately \$920 per month.

Aircom Hong Kong has a lease agreement with WWI with monthly rental cost of \$450. The lease term was from June 1, 2017 to May 31, 2018 and the lease was not renewed. Aircom Hong Kong has another lease agreement with WWI for its office space in Hong Kong with monthly rental cost of HKD 30,000 (\$3,829). The lease term is from June 28, 2018 to June 27, 2020.

Aerkomm had short-term loans from Dmedia with an annual interest rate of 3% and 4.75% for the years ended December 31, 2019 and 2018. The Company repaid the short-term loan in full on July 1, 2019 and June 14, 2018.

On May 25, 2018, Mr. Louis Giordimaina was converted from a consultant to a full-time employee and was appointed as Chief Operating Officer – Aviation. The consulting fee paid for the year ended December 31, 2018 in the amount of \$222,246 represents the consulting services provided prior to the conversion.

Aircom engaged WISD to handle its filing of patent and trademark applications in 2018. No transaction is to be disclosed in 2019.

NOTE 16 - Stock Based Compensation

In March 2014, Aircom’s Board of Directors adopted the 2014 Stock Option Plan (the “Aircom 2014 Plan”). The Aircom 2014 Plan provided for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of Aircom. On February 13, 2017, pursuant to the Exchange Agreement, Aerkomm assumed the options of Aircom 2014 Plan and agreed to issue options for an aggregate of 1,088,882 shares to Aircom’s stock option holders.

One-third of stock option shares will be vested as of the first anniversary of the time the option shares are granted or the employee’s acceptance to serve the Company, and 1/36th of the shares will be vested each month thereafter. Option price is determined by the Board of Directors. The Aircom 2014 Plan became effective upon its adoption by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aircom 2014 Plan.

On May 5, 2017, the Board of Directors of Aerkomm adopted the Aerkomm Inc. 2017 Equity Incentive Plan (the “Aerkomm 2017 Plan” and together with the Aircom 2015 Plan, the “Plans”)) and the reservation of 1,000,000 shares of common stock for issuance under the Aerkomm 2017 Plan. On June 23, 2017, the Board of Directors voted to increase the number of shares of common stock reserved for issuance under the Aerkomm 2017 Plan to 2,000,000 shares. The Aerkomm 2017 Plan provides for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of the Company, as determined by the Compensation Committee of the Board of Directors (or, prior to the establishment of the Compensation Committee on January 23, 2018, the Board of Directors).

On June 23, 2017, the Board of Directors agreed to issue options for an aggregate of 291,000 shares under the Aerkomm 2017 Plan to certain officers and directors of the Company. The option agreements are classified into three types of vesting schedule, which includes, 1) 1/6 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/60 for the next 60 months on the same day of the month as the vesting start date; 2) 1/4 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/36 for the next 36 months on the same day of the month as the vesting start date; 3) 1/3 of the shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 16 - Stock Based Compensation - Continued

On July 31, 2017, the Board of Directors approved to issue options for an aggregate of 109,000 shares under the Aerkomm 2017 Plan to 11 of its employees. 1/3 of these shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

On December 29, 2017, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On June 19, 2018, the Compensation Committee approved to issue options for 32,000 and 30,000 shares under the Aerkomm 2017 Plan to two of the Company executives. One-fourth of the 32,000 shares subject to the option shall vest on May 1, 2019, 2020, 2021 and 2022, respectively. One-third of the 30,000 shares subject to the option shall vest on May 29, 2019, 2020 and 2021, respectively.

On December 29, 2018, the Compensation Committee approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On July 2, 2019, the Board of Directors approved the grant of options to purchase an aggregate of 339,000 shares under the Aerkomm 2017 Plan to 22 of its directors, officers and employees. 25% of the shares vested on the grant date, 25% of the shares vested on July 17, 2019, 25% of the shares will vest on the first anniversary of the grant date, and 25% of the shares will vest upon the second anniversary of the grant date.

On October 4, 2019, the Board of Directors approved the grant of options to purchase an aggregate of 85,400 shares under the Aerkomm 2017 Plan to three (3) of its employees. 25% of the shares vested on the grant date, and 25% of the shares will vest on each of October 4, 2020, October 4, 2021 and October 4, 2022, respectively.

On December 29, 2019, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options shall vest at the date of 1/12th each month for the next 12 months on the same day of December 2019.

Option price is determined by the Compensation Committee. The Aerkomm 2017 Plan has been adopted by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aerkomm 2017 Plan. The Aerkomm 2017 Plan was approved by the Company's stockholders on March 28, 2018.

Valuation and Expense Information

Measurement and recognition of compensation expense based on estimated fair values is required for all share-based payment awards made to its employees and directors including employee stock options. The Company recognized compensation expense of \$2,342,802 and \$1,422,961 for the years ended December 31, 2019 and 2018, respectively, related to such employee stock options.

Determining Fair Value

Valuation and amortization method

The Company uses the Black-Scholes option-pricing-model to estimate the fair value of stock options granted on the date of grant or modification and amortizes the fair value of stock-based compensation at the date of grant on a straight-line basis for recognizing stock compensation expense over the vesting period of the option.

Expected term

The expected term is the period of time that granted options are expected to be outstanding. The Company uses the SEC's simplified method for determining the option expected term based on the Company's historical data to estimate employee termination and options exercised.

Expected dividends

The Company does not plan to pay cash dividends before the options are expired. Therefore, the expected dividend yield used in the Black-Scholes option valuation model is zero.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 16 - Stock Based Compensation - Continued

Expected volatility

Since the Company has no historical volatility, it used the calculated value method which substitutes the historical volatility of a public company in the same industry to estimate the expected volatility of the Company’s share price to measure the fair value of options granted under the Plans.

Risk-free interest rate

The Company based the risk-free interest rate used in the Black-Scholes option valuation model on the market yield in effect at the time of option grant provided in the Federal Reserve Board’s Statistical Releases and historical publications on the Treasury constant maturities rates for the equivalent remaining terms for the Plans.

Forfeitures

The Company is required to estimate forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate option forfeitures and records share-based compensation expense only for those awards that are expected to vest.

The Company used the following assumptions to estimate the fair value of options granted in 2019 and 2018 under the Plans as follows:

Assumptions		
Expected term		5-10 years
Expected volatility		45.81% - 62.26%
Expected dividends		0%
Risk-free interest rate		1.52% - 2.99%
Forfeiture rate		0% - 5%

Aircom 2014 Plan

Activities related to options outstanding for the years ended December 31, 2019 and 2018 were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2018	932,262	\$ 0.4081	\$ 0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2018	932,262	0.4081	0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2019	932,262	0.4081	0.1282

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 16 - Stock Based Compensation - Continued

Activities related to stock awards under the 2014 incentive compensation plan for the years ended December 31, 2019 and 2018 were as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Options unvested at January 1, 2018	302,467	\$ 0.2614
Granted	-	-
Vested	(216,492)	0.5349
Forfeited	-	-
Options unvested at December 31, 2018	85,975	0.4963
Granted	-	-
Vested	(85,975)	0.4963
Forfeited	-	-
Options unvested at December 31, 2019	<u>-</u>	<u>\$ -</u>

Of the shares covered by options outstanding at the end of 2019, 932,262 are now exercisable. Information related to stock options outstanding and exercisable at December 31, 2019, is as follows:

	Options Outstanding			Options Exercisable		
	Shares Outstanding at 12/31/2019	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 12/31/2019	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
Range of Exercise Prices						
\$ 0.0067	820,391	5.17	\$ 0.0067	820,391	5.17	\$ 0.0067
\$ 3.3521	111,871	6.50	3.3521	111,871	6.50	3.3521
	<u>932,262</u>	5.33	0.4081	<u>932,262</u>	5.33	0.4081

As of December 31, 2019, there was no unrecognized stock-based compensation expense. No option was exercised during 2019 and 2018.

Aerkomm 2017 Plan

Activities related to options outstanding for the years ended December 31, 2019 and 2018 were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2018	253,000	\$ 30.8824	\$ 18.4796
Granted	78,000	19.7462	13.9258
Exercised	-	-	-
Forfeited/Cancelled	(48,000)	27.5000	16.4610
Options outstanding at December 31, 2018	283,000	28.3867	17.5668
Granted	436,400	5.4763	3.8452
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2019	<u>719,400</u>	14.4889	9.2431

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 16 - Stock Based Compensation - Continued

Activities related to stock awards under the 2017 incentive compensation plan for the years ended December 31, 2019 and 2018 were as follows:

	Number of Shares	Average Granted- Date Fair Value
Options unvested at January 1, 2018	168,250	\$ 19.2235
Granted	78,000	13.9258
Vested	(74,839)	17.5714
Forfeited	-	-
Options unvested at December 31, 2018	171,411	17.5341
Granted	436,400	3.8452
Vested	(267,683)	7.5460
Forfeited	-	-
Options unvested at December 31, 2019	<u>340,128</u>	<u>\$ 7.8313</u>

Of the shares covered by options outstanding at the end of 2019, 379,272 are now exercisable; 186,678 will be exercisable in 2020; 124,100 will be exercisable in 2021; and 29,350 will be exercisable in 2022. Information related to stock options outstanding and exercisable at December 31, 2019, is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares Outstanding at 12/31/2019	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 12/31/2019	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 3.96	339,000	9.50	\$ 3.9600	169,500	9.50	\$ 3.9600
\$ 9.00	12,000	10.00	9.0000	-	-	-
\$ 11.00 – 13.95	97,400	9.67	11.3634	33,350	9.49	12.0615
\$ 20.50 – 27.50	147,000	7.89	24.4918	89,750	7.71	26.0047
\$ 30.00 – 35.00	124,000	7.50	34.4012	86,672	7.52	34.1981
	<u>719,400</u>	8.86	14.4889	<u>379,272</u>	8.62	16.7991

As of December 31, 2019, total unrecognized stock-based compensation expense related to stock options was \$1,882,000, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.61 years. No option was exercised during 2019 and 2018.

NOTE 17 - Commitments

As of December 31, 2019, the Company's significant commitments with unrelated parties and contingency are summarized as follows:

Yihe Culture Media Agreement: On June 20, 2018, the Company entered into a Cooperation Framework Agreement with Shenzhen Yihe Culture Media Co., Ltd. ("Yihe"), the authorized agent of Guangdong Tengen Internet, pursuant to which Yihe will promote the development of strategic cooperation between the Company and Guangdong Tengen Internet. Specifically, Yihe agreed to assist the Company with public relations and advertising, such as market and brand promotion, as well as brand recognition in China (excluding Hong Kong, Macao and Taiwan), including but not limited to news dissemination, creative planning and support of campaigns, financial public relations and internet advertising. More specifically, Yihe will help the Company develop a working application of the WeChat Pay payment solution as well as WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes, and Yihe will assist the Company in integrating other Tencent internet-based original product offerings. As compensation, the Company agreed to pay Yihe RMB 8 million (approximately US\$1.2 million), with RMB 2,000,000 (approximately US\$309,000) paid on June 29, 2018 and the remaining RMB 6,000,000 (approximately US\$927,000) to be paid by August 15, 2018. On July 19, 2019, Yihe and the Company agreed to extend the expiration date of the agreement to June 20, 2022. The Company had paid the remaining RMB 6,000,000 on August 12, 2019.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 17 - Commitments - Continued

Airbus SAS Agreement: On November 30, 2018, in furtherance of a memorandum of understanding signed in March 2018, the Company entered into an agreement with Airbus SAS (“Airbus”), pursuant to which Airbus will develop and certify a complete solution allowing the installation of our “AERKOMM K++” system on Airbus’ single aisle aircraft family including the Airbus A319/320/321, for both Current Engine Option (CEO) and New Engine Option (NEO) models. Airbus will also apply for and obtain on our behalf a Supplemental Type Certificate (STC) from the European Aviation Safety Agency, or EASA, as well as from the U.S. Federal Aviation Administration or FAA, for the retrofit system. It is anticipated that the Bilateral Aviation Safety Agreement between EASA and the Civil Aviation Administration of China, or CAAC, will be finalized and go into effect in 2019. Pursuant to the terms of our Airbus agreement, The Company agreed to pay the service fees that Airbus provides the Company with the retrofit solution which will include the Service Bulletin and the material kits including the update of technical and operating manuals pertaining to the aircraft and provision of aircraft configuration control. The timeframe for the completion and testing of this retrofit solution, including the certification, is approximately 16 months from the purchase order issued in August 2018, although there is no guarantee that the project will be successfully completed in the projected timeframe.

Hong Kong Airlines Agreement: On January 30, 2020, Aircom signed an agreement with Hong Kong Airlines Ltd. (HKA) to provide to Hong Kong Airlines both of its Aerkomm AirCinema and AERKOMM K++ IFEC solutions. Under the terms of this new agreement, Aircom will provide HKA its Ka-band AERKOMM K++ IFEC system and its AERKOMM AirCinema system. HKA will become the first commercial airliner launch customer for Aircom.

Yuan Jiu Inc. MOU: On March 20, 2020, Aircom signed a non-binding memorandum of understanding (MOU) with Yuan Jiu Inc. (Yuan Jiu), a Taiwanese company, to form a partnership to pool together their resources in developing and manufacturing certain necessary equipment for Aerkomm IFEC systems. Under this MOU, Yuan Jiu will supply capital to fund the development and purchase of AERKOMM K++, AirCinema and/or AirCinema Cube equipment for installation on aircraft of Aircom’s airline customers. In return, Aircom will share the profits from services provided through such equipment. Aircom and Yuan Jiu will work together to finalize the detailed terms and conditions for the proposed business endeavour.

NOTE 18 - Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. Subsequent to December 31, 2019, the spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact on its operations.

AERKOMM INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AERKOMM INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
September 30, 2020 and December 31, 2019

	September 30, 2020	December 31, 2019
	(Unaudited)	
<u>Assets</u>		
Current Assets		
Cash	\$ 74,184	\$ 751,329
Short-term investment	121,460	-
Accounts receivable	-	451,130
Inventories, net	5,030,717	3,038,564
Prepaid expenses and other current assets	1,678,486	2,976,986
Total Current Assets	<u>6,904,847</u>	<u>7,218,009</u>
Property and Equipment		
Cost	2,806,068	2,777,144
Accumulated depreciation	(1,279,468)	(869,747)
Net	1,526,600	1,907,397
Prepayment for land	35,861,589	35,861,589
Total Property and Equipment	<u>37,388,189</u>	<u>37,768,986</u>
Other Assets		
Restricted cash	41,350	225,500
Intangible asset, net	2,516,250	2,887,500
Goodwill	1,475,334	1,475,334
Right-of-use assets, net	424,119	302,602
Deposits	116,775	113,660
Total Other Assets	<u>4,573,828</u>	<u>5,004,596</u>
Total Assets	<u><u>\$ 48,866,864</u></u>	<u><u>\$ 49,991,591</u></u>
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities		
Short-term bank loan	\$ 163,200	\$ -
Short-term loans	1,314,162	-
Accounts payable	1,874,339	912,729
Accrued expenses and other current liabilities	4,220,478	2,077,220
Long-term loan - current	9,635	8,666
Lease liability – current	413,213	332,379
Total Current Liabilities	<u>7,995,027</u>	<u>3,330,994</u>
Long-term Liabilities		
Long-term loan – non-current	30,717	36,803
Prepayment from customer	762,000	762,000
Lease liability – non-current	256,299	45,199
Restricted stock deposit liability	1,000	1,000
Total Long-Term Liabilities	<u>1,050,016</u>	<u>845,002</u>
Total Liabilities	<u>9,045,043</u>	<u>4,175,996</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding as of September 30, 2020 and December 31, 2019	-	-
Common stock, \$0.001 par value, 90,000,000 shares authorized, 9,391,729 shares (excluding 149,162 unvested restricted shares) issued and outstanding as of September 30, 2020 and December 31, 2019	9,392	9,392
Additional paid in capital	71,019,515	69,560,529
Accumulated deficits	(30,129,350)	(23,271,687)
Accumulated other comprehensive loss	(1,077,736)	(482,639)
Total Stockholders' Equity	<u>39,821,821</u>	<u>45,815,595</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 48,866,864</u></u>	<u><u>\$ 49,991,591</u></u>

See accompanying notes to the condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss
For the Three-Month and Nine-Month Periods ended September 30, 2020 and 2019

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ -	\$ -	\$ -	\$ 1,599,864
Cost of sales	-	-	-	1,587,222
Gross profit	-	-	-	12,642
Operating expenses	1,556,729	2,733,350	6,199,323	6,356,161
Loss from Operations	(1,556,729)	(2,733,350)	(6,199,323)	(6,343,519)
Net Non-Operating Loss	(813,222)	(78,433)	(655,065)	(533,459)
Loss before Income Taxes	(2,369,951)	(2,811,783)	(6,854,388)	(6,876,978)
Income Tax Expense	12	-	3,275	3,235
Net Loss	(2,369,963)	(2,811,783)	(6,857,663)	(6,880,213)
Other Comprehensive Income (Loss)				
Change in foreign currency translation adjustments	(367,280)	59,237	(595,097)	524,531
Total Comprehensive Loss	<u>\$(2,737,243)</u>	<u>\$(2,752,546)</u>	<u>\$(7,452,760)</u>	<u>\$(6,355,682)</u>
Net Loss Per Common Share:				
Basic	<u>\$ (0.2484)</u>	<u>\$ (0.2967)</u>	<u>\$ (0.7188)</u>	<u>\$ (0.7377)</u>
Diluted	<u>\$ (0.2484)</u>	<u>\$ (0.2967)</u>	<u>\$ (0.7188)</u>	<u>\$ (0.7377)</u>
Weighted Average Shares Outstanding - Basic	<u>9,540,891</u>	<u>9,475,413</u>	<u>9,540,891</u>	<u>9,326,382</u>
Weighted Average Shares Outstanding - Diluted	<u>9,540,891</u>	<u>9,475,413</u>	<u>9,540,891</u>	<u>9,326,382</u>

See accompanying notes to the condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Nine-Month Periods ended September 30, 2020 and 2019

	Common Stock		Additional Paid in	Accumulated	Accumulated	Total
	Shares	Amount	Capital	Deficits	Other Comprehensive Income	Stockholders' Equity
Balance as of December 31, 2018	9,098,090	\$ 9,098	\$ 56,582,800	\$ (15,292,128)	\$ 119,964	\$ 41,419,734
Stock compensation expense	-	-	313,042	-	-	313,042
Revaluation of stock warrant	-	-	(68,200)	-	-	(68,200)
Other comprehensive income	-	-	-	-	343,596	343,598
Net loss for the period	-	-	-	(2,382,992)	-	(2,382,992)
Balance as of March 31, 2019 (unaudited)	9,098,090	9,098	56,827,642	(17,675,120)	463,560	39,625,180
Issuance of common stock	152,000	152	6,047,478	-	-	6,047,630
Issuance of stock warrant	-	-	5,000	-	-	5,000
Stock compensation expense	-	-	346,549	-	-	346,549
Revaluation of stock warrant	-	-	(268,367)	-	-	(268,367)
Other comprehensive income	-	-	-	-	121,698	121,698
Net loss for the period	-	-	-	(1,685,438)	-	(1,685,438)
Balance as of June 30, 2019 (unaudited)	9,250,090	9,250	62,958,302	(19,360,558)	585,258	44,192,252
Issuance of common stock	141,619	142	4,762,916	-	-	4,763,058
Stock compensation expense	-	-	735,078	-	-	735,078
Revaluation of stock warrant	-	-	415,800	-	-	415,800
Other comprehensive income	-	-	-	-	59,237	59,237
Net loss for the period	-	-	-	(2,811,783)	-	(2,811,783)
Balance as of September 30, 2019 (unaudited)	9,391,709	\$ 9,392	\$ 68,872,096	\$ (22,172,341)	\$ 644,495	\$ 47,353,642

	Common Stock		Additional Paid in	Accumulated	Accumulated	Total
	Shares	Amount	Capital	Deficits	Other Comprehensive Income (Loss)	Stockholders' Equity
Balance as of December 31, 2019	9,391,729	\$ 9,392	\$ 69,560,529	\$ (23,271,687)	\$ (482,639)	\$ 45,815,595
Stock compensation expense	-	-	464,827	-	-	464,827
Revaluation of stock warrant	-	-	(66,200)	-	-	(66,200)
Other comprehensive income	-	-	-	-	343,775	343,775
Net loss for the period	-	-	-	(2,366,494)	-	(2,366,494)
Balance as of March 31, 2020 (Unaudited)	9,391,729	9,392	69,959,156	(25,638,181)	(138,864)	44,191,503
Stock compensation expense	-	-	448,987	-	-	448,987
Revaluation of stock warrant	-	-	455,500	-	-	455,500
Other comprehensive loss	-	-	-	-	(571,592)	(571,592)
Net loss for the period	-	-	-	(2,121,206)	-	(2,121,206)
Balance as of June 30, 2020 (Unaudited)	9,391,729	9,392	70,863,643	(27,759,387)	(710,456)	42,403,192
Stock compensation expense	-	-	282,572	-	-	282,572
Revaluation of stock warrant	-	-	(126,700)	-	-	(126,700)
Other comprehensive loss	-	-	-	-	(367,280)	(367,280)
Net loss for the period	-	-	-	(2,369,963)	-	(2,369,963)
Balance as of September 30, 2020 (Unaudited)	9,391,729	\$ 9,392	\$ 71,019,515	\$ (30,129,350)	\$ (1,077,736)	\$ 39,821,821

See accompanying notes to the condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the Nine-Month Periods ended September 30, 2020 and 2019

	Nine Months Ended September 30,	
	2020	2019
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities		
Net loss	\$(6,857,663)	\$ (6,880,213)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	780,971	781,007
Stock-based compensation expense	1,196,386	1,394,669
R&D expenses transferred from inventory and construction in progress	-	416,231
Consulting expense adjustment from change in fair value of warrants	262,600	84,233
Unrealized losses on trading security	68,911	-
Changes in operating assets and liabilities:		
Accounts receivable	451,130	1,095,061
Inventories	(1,992,153)	(1,485,350)
Prepaid expenses and other current assets	1,292,279	(985,849)
Deposits	(3,115)	(252)
Accounts payable	961,610	(840,092)
Accrued expenses and other current liabilities	2,143,258	(1,650,867)
Operating lease liability	179,372	41,069
Net Cash Used for Operating Activities	<u>(1,516,414)</u>	<u>(8,030,353)</u>
Cash Flows from Investing Activities		
Purchase of trading security	(184,150)	-
Purchase of property and equipment	(28,924)	(6,455)
Prepayment on land and satellite equipment	-	(624,462)
Net Cash Used for Investing Activities	<u>(213,074)</u>	<u>(630,917)</u>
Cash Flows from Financing Activities		
Proceeds from short-term bank loan	163,200	-
Proceeds from short-term loans	1,314,162	-
Proceeds from long-term loan	-	45,765
Proceeds from issuance of common stock	-	10,810,688
Payment on loan-term loan	(5,117)	-
Payment on finance lease liability	(8,955)	-
Net Cash Provided by Financing Activities	<u>1,463,290</u>	<u>10,856,453</u>
Net Increase (Decrease) in Cash and Restricted Cash	(266,198)	2,195,183
Cash and Restricted Cash, Beginning of Period	976,829	88,309
Foreign Currency Translation Effect on Cash	(595,097)	524,531
Cash and Restricted Cash, End of Period	<u>\$ 115,534</u>	<u>\$ 2,808,023</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	<u>\$ 3,275</u>	<u>\$ -</u>
Cash paid during the period for interest	<u>\$ 4,593</u>	<u>\$ 338</u>

See accompanying notes to the condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 1 - Organization

Aerkomm Inc. (formerly Maple Tree Kids Inc.) (“Aerkomm”) was incorporated on August 14, 2013 in the State of Nevada. Aerkomm was a retail distribution company selling all its products over the internet in the United States, operating in the infant and toddler products business market.

On December 28, 2016, Aircom Pacific Inc. (“Aircom”) purchased approximately 86.3% of Aerkomm’s issued and outstanding common stock as of the closing date of purchase. As a result of the transaction, Aircom became the controlling shareholder of Aerkomm. Aircom was incorporated on September 29, 2014 under the laws of the State of California.

On February 13, 2017, Aerkomm entered into a share exchange agreement (“Exchange Agreement”) with Aircom and its shareholders, pursuant to which Aerkomm acquired 100% of the issued and outstanding capital stock of Aircom in exchange for approximately 99.7% of the issued and outstanding capital stock of Aerkomm. As a result of the share exchange, Aircom became a wholly-owned subsidiary of Aerkomm, and the former shareholders of Aircom became the holders of approximately 99.7% of Aerkomm’s issued and outstanding capital stock.

On December 31, 2014, Aircom acquired a newly incorporated subsidiary, Aircom Pacific Ltd. (“Aircom Seychelles”), a corporation formed under the laws of the Republic of Seychelles. Aircom Seychelles was formed to facilitate Aircom’s global corporate structure for both business operations and tax planning. Presently, Aircom Seychelles has no operations. Aircom is working with corporate and tax advisers in finalizing its global corporate structure and has not yet concluded its final plan.

On October 17, 2016, Aircom acquired a wholly owned subsidiary, Aircom Pacific Inc. Limited (“Aircom HK”), a corporation formed under the laws of Hong Kong. The purpose of Aircom HK is to conduct Aircom’s business and operations in Hong Kong. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in Hong Kong. Aircom HK is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to Hong Kong-based airlines via Aircom HK and teleports located in Hong Kong.

On December 15, 2016, Aircom acquired a wholly owned subsidiary, Aircom Japan, Inc. (“Aircom Japan”), a corporation formed under the laws of Japan. The purpose of Aircom Japan is to conduct business development and operations located within Japan. Aircom Japan is in the process of applying for, and will be the holder of, Satellite Communication Blanket License in Japan, which is necessary for Aircom to provide services within Japan. Aircom Japan will also provide local supports to airlines operating within the territory of Japan.

Aircom Telecom LLC (“Aircom Taiwan”), which became a wholly owned subsidiary of Aircom in December 2017, was organized under the laws of Taiwan on June 29, 2016. Aircom Taiwan is responsible for Aircom’s business development efforts and general operations within Taiwan.

On June 13, 2018, Aerkomm established a new wholly owned subsidiary, Aerkomm Taiwan Inc. (“Aerkomm Taiwan”), a corporation formed under the laws of Taiwan. The purpose of Aerkomm Taiwan is to purchase a parcel of land and raise sufficient fund for ground station building and operate the ground station for data processing (although that cannot be guaranteed).

On November 15, 2018, Aircom Taiwan acquired a wholly owned subsidiary, Beijing Yatai Communication Co., Ltd. (“Aircom Beijing”), a corporation formed under the laws of China. The purpose of Aircom Beijing is to conduct Aircom’s business and operations in China. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in China as most business conducted in China requires a local registered company. Aircom Beijing is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to China-based airlines via Aircom Beijing and teleports located in China.

On October 31, 2019, Aircom Seychelles established a new a wholly owned subsidiary, Aerkomm Pacific Limited (“Aerkomm Malta”), a corporation formed under the laws of Malta. The purpose of Aerkomm Malta is to conduct Aircom’s business and operations and to engage with suppliers and potential airlines customers in the European Union.

Aerkomm and its subsidiaries (the “Company”) are full-service, development stage providers of in-flight entertainment and connectivity solutions with their initial market in the Asian Pacific region.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 1 - Organization - Continued

The Company has not generated significant revenues, excluding non-recurring revenues in 2018 and 2019, and will incur additional expenses as a result of being a public reporting company. Currently, the Company has taken measures that management believes will improve its financial position by financing activities, including through a public offering, short-term borrowings and equity contributions. Two of the Company's current shareholders (the "Lenders") each committed to provide to the Company a \$10 million bridge loan (together, the "Loans") for an aggregate principal amount of \$20 million, to bridge the Company's cash flow needs prior to its obtaining a mortgage loan to be secured by a parcel of land (the "Land") the Company purchased in Taiwan. The Lenders also agreed to an earlier closing of up to 25% of the principal amounts of the Loans upon the Company's request prior to the time that title to the Land is vested in the Company's subsidiary, Aerkomm Taiwan, to pay down outstanding payables to the Company's vendors. On April 16, 2020, the Company signed a loan agreement with one of its business partners, EESquare Superstore Corp. ("EESquare") for a working capital loan of up to \$1.5 million (unaudited), with an interest rate at 3.25%. On July 29, 2020, the Company filed an amendment to the Registration Statement on Form S-1, originally filed on April 30, 2020, with the Securities and Exchange Commission, or the SEC, pursuant to Section 5 of the Securities Act of 1933 to issue and sell up to 1,951,219 shares (approximately \$47,276,000) (unaudited) of the Company's common stock, at a per share price of €20.50 (approximately \$24.23). The Form S-1 was subsequently amended on July 29, 2020, October 21, 2020 and November 5, 2020, and was declared effective on November 6, 2020. With the \$20 million in Loans committed by the Lenders, the working capital loan from EESquare and expected future capital raising efforts, including the filing for upcoming registered public offering, the Company believes its working capital will be adequate to sustain its operations for the next twelve months.

On January 16, 2019, the Company completed a 1-for-5 reverse split of the Company's authorized, issued and outstanding shares of common stock, which was completed by the filing of a Certificate of Change Pursuant to NRS 78.209 with the Nevada Secretary of State on December 26, 2018 (see Note 14). All of the references in these financial statements to authorized common stock and issued and outstanding common stock have been adjusted to reflect this reverse split.

The Company's common stock is quoted for trading on the OTC Markets Group Inc. OTCQX Best Market under the symbol "AKOM." On July 17, 2019, the French *Autorité des Marchés Financiers* (the "AMF") granted visa number 19-372 on the prospectus relating to the admission of the Company's common stock to list and trade on the Professional Segment of the regulated market of Euronext Paris ("Euronext Paris"). The Company's common stock began trading on Euronext Paris on July 23, 2019 under the symbol "AKOM" and is denominated in Euros on Euronext Paris. This listing did not alter the Company's share count, capital structure, or current common stock listing on the OTCQX, the Company's primary trading market for its common stock.

NOTE 2 - Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of September 30, 2020, and the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2020 and 2019 and of changes in stockholders' equity and cash flows for the nine months ended September 30, 2020 and 2019 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2020 and the results of its operations for the three and nine months ended September 30, 2020 and 2019 and of its cash flows for the nine months ended September 30, 2020 and 2019. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these three-month and nine-month periods are unaudited. The results of operations for the nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any other interim period or other future year.

Principle of Consolidation

Aerkomm consolidates the accounts of its subsidiaries, Aircom, Aircom Seychelles, Aircom HK, Aircom Japan, Aircom Taiwan, Aerkomm Taiwan, Aircom Beijing and Aerkomm Malta. All significant intercompany accounts and transactions have been eliminated in consolidation.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 2 - Summary of Significant Accounting Policies - Continued

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash in banks. As of September 30, 2020 and December 31, 2019, the total balance of cash in bank exceeding the amount insured by the Federal Deposit Insurance Corporation (FDIC) for the Company was approximately \$0 (unaudited) and \$233,000, respectively. The balance of cash deposited in foreign financial institutions exceeding the amount insured by local insurance is approximately \$0 and \$37,000 as of September 30, 2020 and December 31, 2019, respectively.

The Company performs ongoing credit evaluation of its customers and requires no collateral. An allowance for doubtful accounts is provided based on a review of the collectability of accounts receivable. The Company determines the amount of allowance for doubtful accounts by examining its historical collection experience and current trends in the credit quality of its customers as well as its internal credit policies. Actual credit losses may differ from management's estimates.

Short-term investment

The Company's short-term investment securities are classified as trading security. The securities are stated at fair value within current assets on the Company's condensed balance sheets. Fair value is calculated based on publicly available market information or other estimates determined by the Company. Changes in fair value are recorded in current income.

Inventories

Inventories are recorded at the lower of weighted-average cost or net realizable value. The Company assesses the impact of changing technology on its inventory on hand and writes off inventories that are considered obsolete. Estimated losses on scrap and slow-moving items are recognized in the allowance for losses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. When value impairment is determined, the related assets are stated at the lower of fair value or book value. Significant additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed by using the straight-line and double declining methods over the following estimated service lives: ground station equipment – 5 years, computer equipment - 3 to 5 years, furniture and fixtures - 5 years, satellite equipment – 5 years, vehicles – 5 years and lease improvement – 5 years.

Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss credited or charged to income in the period of sale or disposal.

The Company reviews the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. It determined that there was no impairment loss for the nine-month period ended September 30, 2020 and for the year ended December 31, 2019.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 2 - Summary of Significant Accounting Policies - Continued

Right-of-Use Asset and Lease Liability

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”), which modifies lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases and finance leases under previous accounting standards and disclosing key information about leasing arrangements.

A lessee should recognize the lease liability to make lease payments and the right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases and finance leases, a right-of-use asset and a lease liability are initially measured at the present value of the lease payments by discount rates. The Company’s lease discount rates are generally based on its incremental borrowing rate, as the discount rates implicit in the Company’s leases is readily determinable. Operating leases are included in operating lease right-of-use assets and lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment and lease liability in our consolidated balance sheets. Lease expense for operating expense payments is recognized on a straight-line basis over the lease term. Interest and amortization expenses are recognized for finance leases on a straight-line basis over the lease term.

For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The Company adopted ASU 2016-02 effective January 1, 2019.

Goodwill and Purchased Intangible Assets

The Company’s goodwill represents the amount by which the total purchase price paid exceeded the estimated fair value of net assets acquired from acquisition of subsidiaries. The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment.

Purchased intangible assets with finite life are amortized on the straight-line basis over the estimated useful lives of respective assets. Purchased intangible assets with indefinite life are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Purchased intangible asset consists of satellite system software and is amortized over 10 years.

Fair Value of Financial Instruments

The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management’s best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions.

The carrying amounts of the Company’s cash, accounts receivable, other receivable, accounts payable, short-term loans, accrued expense and other payable approximated their fair value due to the short-term nature of these financial instruments. The Company’s long-term loan and lease payable approximated the carrying amount as its interest rate is considered as approximate to the current rate for comparable loans and leases, respectively. There were no outstanding derivative financial instruments as of September 30, 2020.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 2 - Summary of Significant Accounting Policies - Continued

Revenue Recognition

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. The Company's revenue for the nine months ended September 30, 2019 was the sales of compact adaptor for smartphone that allows users to turn their smartphone into a satellite smartphone to provide reliable connectivity beyond the coverage of traditional networks. The majority of the Company's revenue is recognized at a point in time when product is shipped or service is provided to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods, which includes estimates for variable consideration. During 2019, the Company adopted the provisions of ASU 2014-09 Revenue from Contracts with Customers (Topic 606) and the principal versus agent guidance within the new revenue standard. The application of Topic 606 (versus prior U.S. GAAP) did not have a significant impact on the Company's comparative financial statements as presented.

Research and Development Costs

Research and development costs are charged to operating expenses as incurred. For the nine-month periods ended September 30, 2020 and 2019, the Company incurred \$0 (unaudited) and \$416,231 (unaudited) of research and development costs, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Adjustments to prior period's income tax liabilities are added to or deducted from the current period's tax provision.

The Company follows FASB guidance on uncertain tax positions and has analyzed its filing positions in all the federal, state and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in those jurisdictions. The Company files income tax returns in the US federal, state and foreign jurisdictions where it conducts business. It is not subject to income tax examinations by US federal, state and local tax authorities for years before 2015. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on its consolidated financial position, results of operations, or cash flows. Therefore, no reserves for uncertain tax positions have been recorded. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months.

The Company's policy for recording interest and penalties associated with any uncertain tax positions is to record such items as a component of income before taxes. Penalties and interest paid or received, if any, are recorded as part of other operating expenses in the consolidated statement of operations.

Foreign Currency Transactions

Foreign currency transactions are recorded in U.S. dollars at the exchange rates in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. At the end of each period, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rates with the resulting gains or losses recognized in income for the period.

Translation Adjustments

If a foreign subsidiary's functional currency is the local currency, translation adjustments will result from the process of translating the subsidiary's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported under other comprehensive income (loss) as a separate component of stockholders' equity.

NOTE 2 - Summary of Significant Accounting Policies - Continued

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include stock warrants and outstanding stock options, shares to be purchased by employees under the Company's employee stock purchase plan.

Subsequent Events

The Company has evaluated events and transactions after the reported period up to November 7, 2020, the date on which these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of September 30, 2020 have been included in these consolidated financial statements.

NOTE 3 - Recent Accounting Pronouncements

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12 to simplify the accounting in ASC 740, Income Taxes. This guidance removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This ASU will be effective beginning in the first quarter of the Company's fiscal year 2021. Early adoption is permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements and related disclosures, as well as the timing of adoption.

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which modifies the measurement of expected credit losses of certain financial instruments. In February 2020, the FASB issued ASU 2020-02 and delayed the effective date of ASU 2016-13 until fiscal year beginning after December 15, 2022. The Company is currently evaluating the impact of adopting ASU 2016-13 on its consolidated financial statements.

Intangibles

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other" (Topic 350): Simplifying the Test for Goodwill Impairment, which goodwill shall be tested at least annually for impairment at a level of reporting referred to as a reporting unit. ASU 2017-04 will be effective for annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2017-04 on its consolidated financial statements.

NOTE 4 - Inventories

As of September 30, 2020 and December 31, 2019, inventories consisted of the following:

	September 30, 2020	December 31, 2019
	(Unaudited)	
Satellite equipment for sale under construction	\$ 4,669,297	\$ 3,038,564
Supplies	5,284	5,230
	4,674,581	3,043,794
Allowance for inventory loss	(5,284)	(5,230)
Net	4,669,297	3,038,564
Prepayment for inventory	361,420	-
Total	<u>\$ 5,030,717</u>	<u>\$ 3,038,564</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 5 - Property and Equipment

As of September 30, 2020 and December 31, 2019, the balances of property and equipment were as follows:

	September 30, 2020	December 31, 2019
	(Unaudited)	
Ground station equipment	\$ 1,854,027	\$ 1,854,027
Computer software and equipment	335,709	328,863
Satellite equipment	275,410	275,410
Vehicle	220,819	198,741
Leasehold improvement	83,721	83,721
Furniture and fixture	36,382	36,382
	2,806,068	2,777,144
Accumulated depreciation	(1,279,468)	(869,747)
Net	1,526,600	1,907,397
Prepayments - land	35,861,589	35,861,589
Net	<u>\$ 37,388,189</u>	<u>\$ 37,768,986</u>

On May 1, 2018, the Company and Aerkomm Taiwan entered into a binding memorandum of understanding with Tsai Ming-Yin (the “Seller”) with respect to the acquisition by Aerkomm Taiwan of a parcel of land located in Taiwan. The land is expected to be used to build a satellite ground station and data center. On July 10, 2018, the Company, Aerkomm Taiwan and the Seller entered into a certain real estate sales contract regarding this acquisition. Pursuant to the terms of the contract, and subsequent amendments on July 30, 2018, September 4, 2018, November 2, 2018 and January 3, 2019, the Company paid to the seller in installments refundable prepayments of \$33,850,000 as of December 31, 2018. On July 2, 2019, the Company paid the remaining purchase price balance of \$624,462. Under the terms of the real estate sales contract, these purchase price payments are no longer refundable as of September 30, 2020. The Company is currently negotiating with the Seller to allow for a refund of the full purchase price if licenses and approvals needed to transfer land title to Aerkomm Taiwan are not granted by a certain date. There can be no assurances, however, that it will be successful in these negotiations or that the required licenses and approvals will be granted by a certain date, if at all. As of September 30, 2020 and December 31, 2019, the estimated commission payable for the land purchase in the amount of \$1,387,127 was recorded to the cost of land and the payment to be paid no later than December 31, 2021.

Depreciation expense was \$136,095 (unaudited) and \$136,449 (unaudited) for the three-month periods ended September 30, 2020 and 2019, respectively, and \$409,721 (unaudited) and \$409,757 (unaudited) for the nine-month periods ended September 30, 2020 and 2019, respectively.

NOTE 6 - Intangible Asset, Net

As of September 30, 2020 and December 31, 2019, the cost and accumulated amortization for intangible asset were as follows:

	September 30, 2020	December 31, 2019
	(Unaudited)	
Satellite system software	\$ 4,950,000	\$ 4,950,000
Accumulated amortization	(2,433,750)	(2,062,500)
Net	<u>\$ 2,516,250</u>	<u>\$ 2,887,500</u>

Amortization expense was \$123,750 (unaudited) and \$123,750 (unaudited) for the three-month periods ended September 30, 2020 and 2019, respectively, and \$371,250 (unaudited) and \$371,250 (unaudited) for the nine-month periods ended September 30, 2020 and 2019, respectively.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 7 - Short-term Investment and Restricted Cash

On September 9, 2019, the Company entered into a liquidity agreement with a security company (“the Liquidity Provider”) in France, which is consistent with customary practice in the French securities market. The liquidity agreement complies with applicable laws and regulations in France and authorizes the Liquidity Provider to carry out market purchases and sales of shares of the Company’s common stock on the Euronext Paris market. To enable the Liquidity Provider to carry out the interventions provided for in the contract, the Company contributed approximately \$225,500 (€200,000) into the account. The transaction was initiated from the beginning of 2020, and the Company will pay the compensation of 20,000 euros in advance by semi-annual installments at the beginning of the semi-annual period of the agreement. The liquidity agreement has a term of one year and will be renewed automatically unless otherwise terminated by either party. As of September 30, 2020, the Company purchased 7,732 shares (unaudited) of its common stock with the fair value of \$121,460 (unaudited). The securities were recorded as short-term investment with unrealized loss of \$68,911 (unaudited). The remaining cash balance was \$41,350 (€35,290) (unaudited).

NOTE 8 - Operating and Finance Leases

A. Lease term and discount rate:

The weighted-average remaining lease term (in years) and discount rate related to the leases were as follows:

	<u>Unaudited</u>
Weighted-average remaining lease term	
Operating lease	2.08 Years
Finance lease	4.10 Years
Weighted-average discount rate	
Operating lease	6.00%
Finance lease	3.82%

B. The balances of the operating and finance leases are presented as follows within the balance sheets as of September 30, 2020 and December 31, 2019:

Operating Leases

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(Unaudited)	
Right-of-use assets	\$ 424,119	\$ 302,602
Lease liability - current	\$ 402,636	\$ 322,430
Lease liability – non-current	\$ 217,571	\$ -

Finance Leases

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(Unaudited)	
Property and equipment, at cost	\$ 56,770	\$ 56,770
Accumulated depreciation	(10,398)	(1,569)
Property and equipment, net	<u>\$ 46,372</u>	<u>\$ 55,201</u>
Lease liability - current	\$ 10,577	\$ 9,949
Lease liability – non-current	38,728	45,199
Total finance lease liabilities	<u>\$ 49,305</u>	<u>\$ 55,148</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 8 - Operating and Finance Leases - Continued

The components of lease expense are as follows within the condensed consolidated statements of operations and comprehensive loss for the three-month and nine-month periods ended September 30, 2020 and 2019:

Operating Leases

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Lease expense	\$ 126,396	\$ 101,088	\$ 346,741	\$ 345,083
Sublease rental income	(2,827)	-	(8,372)	-
Net lease expense	<u>\$ 123,569</u>	<u>\$ 101,088</u>	<u>\$ 338,369</u>	<u>\$ 345,083</u>

Finance Leases

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Amortization of right-of-use asset	\$ 2,897	\$ -	\$ 8,829	\$ -
Interest on lease liabilities	481	-	1,493	-
Total finance lease cost	<u>\$ 3,378</u>	<u>\$ -</u>	<u>\$ 10,322</u>	<u>\$ -</u>

Supplemental cash flow information related to leases for the nine-month periods ended September 30, 2020 and 2019 is as follows:

	September 30,	September 30,
	2020	2019
	(Unaudited)	(Unaudited)
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	<u>\$ 151,360</u>	<u>\$ 304,014</u>
Operating cash outflows from finance lease	<u>\$ 7,462</u>	<u>\$ -</u>
Financing cash outflows from finance lease	<u>\$ 1,493</u>	<u>\$ -</u>
Leased assets obtained in exchange for lease liabilities:		
Operating leases	<u>\$ 453,049</u>	<u>\$ 722,423</u>

Maturity of lease liabilities:

Operating Leases

	(Unaudited)
October 1, 2020 – September 30, 2021	\$ 421,637
October 1, 2021 – September 30, 2022	167,555
October 1, 2022 – September 30, 2023	59,504
Total lease payments	648,696
Less: Imputed interest	(28,489)
Present value of lease liabilities	620,207
Current portion	(402,636)
Non-current portion	<u>\$ 217,571</u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 8 - Operating and Finance Leases - Continued

Finance Leases

	(Unaudited)
October 1, 2020 – September 30, 2021	\$ 12,277
October 1, 2021 – September 30, 2022	12,277
October 1, 2022 – September 30, 2023	12,277
October 1, 2023 – September 30, 2024	12,277
October 1, 2024 – September 30, 2025	4,478
Total lease payments	53,586
Less: Imputed interest	(4,281)
Present value of lease liabilities	49,305
Current portion	(10,577)
Non-current portion	\$ 38,728

NOTE 9 - Short-term Bank Loan

On April 16, 2020, the Company received loan proceeds in the amount of \$163,200 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. According to PPP, borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8- or 24-week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred. The Company has applied for the forgiveness of the loan within the maturity date and is waiting for the approval.

NOTE 10 - Short-term Loan

On April 16, 2020, the Company signed a loan agreement with one of its business partners, EESquare Superstore Corp. (“EESquare”) for a working capital loan of up to \$1.5 million (unaudited), with an interest rate at 3.25% (unaudited). The agreement will expire on April 15, 2022. Each advance shall be due and payable in full no later than one year from the date of such advance or the termination of the agreement, whichever comes first. As of September 30, 2020, the Company has drawn down \$1,100,000 (unaudited) under this loan agreement.

NOTE 11 - Long-term Loan

The Company has a car loan credit line of NT\$1,500,000 (approximately US\$48,371), which matures on May 21, 2024, from a Taiwan financing company with annual interest rate of 9.7%. The installment payment plan is 60 months to pay off the balance on the 21st of each month. Future installment payments as of September 30, 2020 are as follows:

	(Unaudited)
<u>Twelve months ending September 30,</u>	
2021	\$ 13,119
2022	13,119
2023	13,119
2024	8,746
Total installment payments	48,103
Less: Imputed interest	(7,751)
Present value of long-term loan	40,352
Current portion	(9,635)
Non-current portion	\$ 30,717

NOTE 12 - Prepayment from Customer

On March 9, 2015, the Company entered into a 10-year purchase agreement with Klingon Aerospace, Inc. (“Klingon”), which was formerly named as Luxe Electronic Co., Ltd. In accordance with the terms of this agreement, Klingon agreed to purchase from the Company an initial order of onboard equipment comprising an onboard system for a purchase price of \$909,000, with payments to be made in accordance with a specific milestones schedule. As of September 30, 2020 and December 31, 2019, the Company received \$762,000 from Klingon in milestone payments towards the equipment purchase price. As of November 7, 2020, the project is still ongoing.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 13 - Income Taxes

Income tax expense for the three-month and nine-month periods ended September 30, 2020 and 2019 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current:				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	1,600	1,600
Foreign	12	-	1,675	1,635
Total	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 3,275</u>	<u>\$ 3,235</u>

The following table presents a reconciliation of the Company's income tax at statutory tax rate and income tax at effective tax rate for the three-month and nine-month periods ended September 30, 2020 and 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Tax benefit at statutory rate	\$ (240,895)	\$ (688,749)	\$ (1,244,715)	\$ (1,703,699)
Valuation allowance on net operating loss carryforwards	183,521	531,909	752,812	1,136,489
Unrealized investment losses (gains)	(8,487)	107,200	89,803	290,900
Stock-based compensation expense	59,300	154,400	251,200	292,900
Amortization and depreciation expense	(22,013)	58,700	3,320	33,100
Accrued payroll	98,900	900	174,800	(40,900)
Unrealized exchange losses (gains)	(76,526)	11,653	(104,720)	98,920
Accrued consulting expense	-	(122,300)	-	(122,300)
Others	6,212	(53,713)	80,775	17,825
Tax expense at effective tax rate	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 3,275</u>	<u>\$ 3,235</u>

Deferred tax assets (liabilities) as of September 30, 2020 and December 31, 2019 consist approximately of:

	September 30, 2020	December 31, 2019
	(Unaudited)	
Net operating loss carryforwards (NOLs)	\$ 7,688,000	\$ 6,388,000
Stock-based compensation expense	1,884,000	1,549,000
Accrued expenses and unpaid expense payable	312,000	53,000
Tax credit carryforwards	68,000	68,000
Excess of tax amortization over book amortization	(587,000)	(619,000)
Unrealized exchange gain	(230,000)	(106,000)
Others	(151,000)	(104,000)
Gross	8,984,000	7,229,000
Valuation allowance	(8,984,000)	(7,229,000)
Net	<u>\$ -</u>	<u>\$ -</u>

Management does not believe the deferred tax assets will be utilized in the near future; therefore, a full valuation allowance is provided. The net change in deferred tax assets valuation allowance was an increase of approximately \$ 1,755,000 (unaudited) for the nine months ended September 30, 2020.

As of September 30, 2020 and December 31, 2019, the Company had federal NOLs of approximately \$8,243,000 available to reduce future federal taxable income, expiring in 2037, and additional federal NOLs of approximately \$ 14,514,000 (unaudited) and \$11,314,000, respectively, were generated and will be carried forward indefinitely to reduce future federal taxable income. As of September 30, 2020 and December 31, 2019, the Company had State NOLs of approximately \$ 25,144,000 (unaudited) and \$21,117,000 respectively, available to reduce future state taxable income, expiring in 2040 and 2039, respectively.

As of September 30, 2020 and December 31, 2019, the Company has Japan NOLs of approximately \$367,000 (unaudited) and \$350,000, respectively, available to reduce future Japan taxable income, expiring through 2031.

AERKONM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 13 - Income Taxes - Continued

As of September 30, 2020 and December 31, 2019, the Company has Taiwan NOLs of approximately \$2,701,000 (unaudited) and \$1,898,000, respectively, available to reduce future Taiwan taxable income, expiring in 2030 and 2029, respectively.

As of September 30, 2020 and December 31, 2019, the Company had approximately \$37,000 (unaudited) and \$37,000 of federal research and development tax credit, available to offset future federal income tax. The credit begins to expire in 2034 if not utilized. As of September 30, 2020 and December 31, 2019, the Company had approximately \$39,000 (unaudited) and \$39,000 of California state research and development tax credit available to offset future California state income tax. The credit can be carried forward indefinitely.

The Company's ability to utilize its federal and state NOLs to offset future income taxes is subject to restrictions resulting from its prior change in ownership as defined by Internal Revenue Code Section 382. The Company does not expect to incur the limitation on NOLs utilization in future annual usage.

NOTE 14 - Capital Stock

1) Preferred Stock:

The Company is authorized to issue 50,000,000 shares of preferred stock, with par value of \$0.001. As of September 30, 2020, there were no preferred stock shares outstanding. The Board of Directors has the authority to issue preferred stock in one or more series, and in connection with the creation of any such series, by resolutions providing for the issuance of the shares thereof, to determine dividends, voting rights, conversion rights, redemption privileges and liquidation preferences.

2) Common Stock:

The Company is authorized to issue 90,000,000 shares of common stock, reflecting a reverse split in the ratio of 1 for 5 effective January 16, 2019, with par value of \$0.001.

On February 13, 2017, all of Aircom's 5,513,334 restricted shares were converted to 2,055,947 shares of Aerkomm's restricted stock at the ratio of 2.681651 to 1, pursuant to the Exchange Agreement (see Note 1). As of September 30, 2020 and December 31, 2019, the restricted shares consisted of the following:

	September 30, 2020 (Unaudited)	December 31, 2019
Restricted stock - vested	1,802,373	1,802,373
Restricted stock - unvested	149,162	149,162
Total restricted stock	<u>1,951,535</u>	<u>1,951,535</u>

The unvested shares of restricted stock were recorded under a deposit liability account awaiting future conversion to common stock when they become vested.

3) Stock Warrant:

The Company has entered into a service agreement which provides for the issuance of warrants to purchase shares of its common stock to a service provider as payment for services. The warrants allow the service provider to purchase a number of shares of Aerkomm common stock equal to the service fee value divided by 85% of the share price paid by investors for Aerkomm's common stock in the first subsequent qualifying equity financing event, at an exercise price of \$0.05 per share. For the nine-month periods ended September 30, 2020 and 2019, Aerkomm has not issued additional stock warrants to the service provider as payment for additional services. As of September 28, 2019, these warrants are equivalent to 4,891 shares of the Company's common stock. On September 29, 2019, the Company settled with the service provider to cancel all these warrants with \$75,000 in three installments payable on July 3, August 1, and September 1, 2019 and all three installments were paid on schedule.

In connection with the Underwriting Agreement with Boustead Securities, LLC, or Boustead, the Company agreed to issue to Boustead warrants to purchase a number of the Company's shares equal to 6% of the gross proceeds of the public offering, which shall be exercisable, in whole or in part, commencing on April 13, 2018 and expiring on the five-year anniversary at an initial exercise price of \$53.125 per share, which is equal to 125% of the offering price paid by investors. As of December 31, 2019, the Company issued total warrants to Boustead to purchase 77,680 shares of the Company's stock. For the nine-month periods ended September 30, 2020 and 2019, the Company recorded an increase of \$262,600 and \$84,233, respectively, in additional paid-in capital as adjustment for the issuance costs of these stock warrants.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 15 - Significant Related Party Transactions

A. Name of related parties and relationships with the Company:

Related Party	Relationship
Dmedia Holding LP (“Dmedia”)	Major stockholder
Well Thrive Limited (“WTL”)	Major stockholder; Sheng-Chun Chang is the President
Yuan Jiu Inc. (“Yuan Jiu”)	Stockholder; Albert Hsu, a Director of Aerkomm, is the Chairman
AA Twin Associates Ltd. (“AATWIN”)	Georges Caldironi, COO of Aerkomm, is sole owner

B. Significant related party transactions:

The Company has extensive transactions with its related parties. It is possible that the terms of these transactions are not the same as those which would result from transactions among wholly unrelated parties.

a. As of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
	(Unaudited)	
Inventory prepayment to:		
Yuan Jiu ¹	\$ 361,420	\$ -
Loans from WTL ²	\$ 214,162	\$ -
Interest payable to WTL ²	\$ 12,326	\$ -
Other payable to:		
AATWIN ³	\$ 150,777	\$ -
Others ⁴	196,322	30,971
Total	\$ 347,099	\$ 30,971

- Represents inventory prepayment paid to Yuan Jiu. On May 11, 2020, the Company entered into a product purchase agreement with Yuan Jiu to purchase 100 sets of the AirCinema Cube to be installed on aircraft of commercial airline customers. The total purchase amount under this agreement was \$1,807,100 (unaudited) and the Company paid 10% of the total amount as an initial deposit of \$180,710 (unaudited). On July 15, 2020, the Company signed a second product purchase agreement of \$1,807,100 (unaudited) with Yuan Jiu for an additional 100 sets of the AirCinema Cube for the same purchase amount and paid a 10% initial deposit of \$180,710 (unaudited) on this agreement as well.
- The Company has a short-term loan from WTL due to operational needs under the Loans (note 1). The loan amount was up to \$172,712 (NTD 5,000,000). The loan agreement, bears an interest rate of 5% per annum, will terminate on December 31, 2020. The Company has drawn down \$158,895 (NTD 4,600,000) (unaudited) and has repaid \$82,902 (NTD 2,400,000) (unaudited) of the outstanding loan as of September 30, 2020. As of November 7, 2020, the Company borrowed additional \$138,169 (NTD 4,000,000) (unaudited) from WTL.

The Company has another loan from WTL due to operational needs under the Loans (note 1). The original loan amount was approximately \$2.64M (NTD 80,000,000). The loan agreement, bears an interest rate of 5% per annum, will terminate on December 31, 2021. The Company has repaid \$2.53M (NTD 76,000,000) of the outstanding loan amount as of September 30, 2020. As of November 7, 2020, the Company borrowed additional \$37,997 (NTD 1,100,000) (unaudited) from WTL under this loan.

As of September 30, 2020, the total outstanding loan balance from WTL was \$214,162 (NTD 6,200,000) (unaudited).

- Represents payable to AATWIN due to consulting agreement on January 1, 2019. The monthly consulting fee is €15,120 (approximately \$17,000) and will be expired December 31, 2021.
- Represents payable to employees as a result of regular operating activities.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 15 - Significant Related Party Transactions - Continued

- b. For the three-month and nine-month periods ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Consulting expense charged by AATWIN	\$ 53,669	\$ -	\$ 153,890	\$ -
Interest expense charged by WTL	2,921	-	11,988	-
Interest expense charged by Dmedia	-	1,446	-	1,744

Aerkomm had short-term loans from Dmedia with an annual interest rate of 3% during the nine-month period ended September 30, 2019. The Company repaid the short-term loan in full on July 1, 2019.

NOTE 16 - Stock Based Compensation

In March 2014, Aircom's Board of Directors adopted the 2014 Stock Option Plan (the "Aircom 2014 Plan"). The Aircom 2014 Plan provided for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of Aircom. On February 13, 2017, pursuant to the Exchange Agreement, Aerkomm assumed the options of Aircom 2014 Plan and agreed to issue options for an aggregate of 1,088,882 shares to Aircom's stock option holders.

One-third of stock option shares will be vested as of the first anniversary of the time the option shares are granted or the employee's acceptance to serve the Company, and 1/36th of the shares will be vested each month thereafter. Option price is determined by the Board of Directors. The Aircom 2014 Plan became effective upon its adoption by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aircom 2014 Plan.

On May 5, 2017, the Board of Directors of Aerkomm adopted the Aerkomm Inc. 2017 Equity Incentive Plan (the "Aerkomm 2017 Plan" and together with the Aircom 2015 Plan, the "Plans")) and the reservation of 1,000,000 shares of common stock for issuance under the Aerkomm 2017 Plan. On June 23, 2017, the Board of Directors voted to increase the number of shares of common stock reserved for issuance under the Aerkomm 2017 Plan to 2,000,000 shares. The Aerkomm 2017 Plan provides for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of the Company, as determined by the Compensation Committee of the Board of Directors (or, prior to the establishment of the Compensation Committee on January 23, 2018, the Board of Directors).

On June 23, 2017, the Board of Directors agreed to issue options for an aggregate of 291,000 shares under the Aerkomm 2017 Plan to certain officers and directors of the Company. The option agreements are classified into three types of vesting schedule, which includes, 1) 1/6 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/60 for the next 60 months on the same day of the month as the vesting start date; 2) 1/4 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/36 for the next 36 months on the same day of the month as the vesting start date; 3) 1/3 of the shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

NOTE 16 - Stock Based Compensation - Continued

On July 31, 2017, the Board of Directors approved to issue options for an aggregate of 109,000 shares under the Aerkomm 2017 Plan to 11 of its employees. 1/3 of these shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

On December 29, 2017, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On June 19, 2018, the Compensation Committee approved to issue options for 32,000 and 30,000 shares under the Aerkomm 2017 Plan to two of the Company executives. One-fourth of the 32,000 shares subject to the option shall vest on May 1, 2019, 2020, 2021 and 2022, respectively. One-third of the 30,000 shares subject to the option shall vest on May 29, 2019, 2020 and 2021, respectively.

On December 29, 2018, the Compensation Committee approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On July 2, 2019, the Board of Directors approved the grant of options to purchase an aggregate of 339,000 shares under the Aerkomm 2017 Plan to 22 of its directors, officers and employees. 25% of the shares vested on the grant date, 25% of the shares vested on July 17, 2019, 25% of the shares will vest on the first anniversary of the grant date, and 25% of the shares will vest upon the second anniversary of the grant date.

On October 4, 2019, the Board of Directors approved the grant of options to purchase an aggregate of 85,400 shares under the Aerkomm 2017 Plan to three (3) of its employees. 25% of the shares vested on the grant date, and 25% of the shares will vest on each of October 4, 2020, October 4, 2021 and October 4, 2022, respectively.

On December 29, 2019, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options shall vest at the date of 1/12th each month for the next 12 months on the same day of December 2019.

On September 17, 2020, the Board of Directors approved to issue options for in the amount of 4,000 shares under the Aerkomm 2017 Plan to one of the Company's independent directors. These options shall vest at the date of 1/12th each month for the next 12 months on the same day of September 2020.

Option price is determined by the Compensation Committee. The Aerkomm 2017 Plan has been adopted by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aerkomm 2017 Plan. The Aerkomm 2017 Plan was approved by the Company's stockholders on March 28, 2018.

Valuation and Expense Information

Measurement and recognition of compensation expense based on estimated fair values is required for all share-based payment awards made to its employees and directors including employee stock options. The Company recognized compensation expense of \$1,196,386 and \$1,394,670 for the nine-month periods ended September 30, 2020 and 2019, respectively, related to such employee stock options.

Determining Fair Value

Valuation and amortization method

The Company uses the Black-Scholes option-pricing-model to estimate the fair value of stock options granted on the date of grant or modification and amortizes the fair value of stock-based compensation at the date of grant on a straight-line basis for recognizing stock compensation expense over the vesting period of the option.

Expected term

The expected term is the period of time that granted options are expected to be outstanding. The Company uses the SEC's simplified method for determining the option expected term based on the Company's historical data to estimate employee termination and options exercised.

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 16 - Stock Based Compensation - Continued

Expected dividends

The Company does not plan to pay cash dividends before the options are expired. Therefore, the expected dividend yield used in the Black-Scholes option valuation model is zero.

Expected volatility

Since the Company has no historical volatility, it used the calculated value method which substitutes the historical volatility of a public company in the same industry to estimate the expected volatility of the Company's share price to measure the fair value of options granted under the Plans.

Risk-free interest rate

The Company based the risk-free interest rate used in the Black-Scholes option valuation model on the market yield in effect at the time of option grant provided in the Federal Reserve Board's Statistical Releases and historical publications on the Treasury constant maturities rates for the equivalent remaining terms for the Plans.

Forfeitures

The Company is required to estimate forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate option forfeitures and records share-based compensation expense only for those awards that are expected to vest.

The Company used the following assumptions to estimate the fair value of options granted in nine-month period ended September 30, 2020 and year ended December 31, 2019 under the Plans as follows:

Assumptions

Expected term	5-10 years
Expected volatility	45.81 – 72.22%
Expected dividends	0%
Risk-free interest rate	0.69 - 2.99%
Forfeiture rate	0 - 5%

Aircom 2014 Plan

Activities related to options for the Aircom 2014 Plan for the nine months ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2019	932,262	\$ 0.4081	\$ 0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2019	932,262	0.4081	0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at September 30, 2020 (unaudited)	932,262	0.4081	0.1282

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 16 - Stock Based Compensation - Continued

Activities related to unvested stock awards under Aircom 2014 Plan for the nine-month period ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Options unvested at January 1, 2019	85,975	\$ 0.4963
Granted	-	-
Vested	(85,975)	0.4963
Forfeited/Cancelled	-	-
Options unvested at December 31, 2019	-	-
Granted	-	-
Vested	-	-
Forfeited/Cancelled	-	-
Options unvested at September 30, 2020 (unaudited)	-	-

Of the shares covered by options outstanding as of September 30, 2020, 932,262 shares of stock option under 2014 Plan are now exercisable. Information related to stock options outstanding and exercisable at September 30, 2020, is as follows:

Options Outstanding (Unaudited)				Options Exercisable (Unaudited)			
Range of Exercise Prices	Shares Outstanding at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	
\$ 0.0067	820,391	4.42	\$ 0.0067	820,391	4.42	\$ 0.0067	
\$ 3.3521	111,871	5.75	3.3521	111,871	5.75	3.3521	
	<u>932,262</u>	4.58	0.4081	<u>932,262</u>	4.58	0.4081	

As of September 30, 2020, there was no unrecognized stock-based compensation expense for the Aircom 2014 Plan. No option was exercised during the nine-month periods ended September 30, 2020 and 2019.

Aerkomm 2017 Plan

Activities related to options outstanding under Aerkomm 2017 Plan for the nine months ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2019	283,000	\$ 28.3867	\$ 17.5668
Granted	436,400	5.4763	3.8452
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2019	719,400	14.4889	9.2431
Granted	6,000	12.7267	9.3328
Exercised	-	-	-
Forfeited/Cancelled	(18,000)	11.8067	7.3457
Options outstanding at September 30, 2020 (unaudited)	<u>707,400</u>	14.5422	9.2921

AERKOMM INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

NOTE 16 - Stock Based Compensation - Continued

Activities related to unvested stock awards under Aerkomm 2017 Plan for the nine-month period ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Options unvested at January 1, 2019	171,411	\$ 17.5341
Granted	436,400	3.8452
Vested	(267,683)	7.5460
Forfeited/Cancelled	-	-
Options unvested at December 31, 2019	340,128	7.8313
Granted	6,000	9.3328
Vested	(160,859)	9.5923
Forfeited/Cancelled	(6,625)	4.0800
Options unvested at September 30, 2020 (unaudited)	178,644	6.4352

Of the shares covered by options outstanding under the Aircom 2017 Plan as of September 30, 2020, 528,756 shares are now exercisable; 127,944 shares will be exercisable for the twelve-month period ending September 30, 2021; 29,350 shares will be exercisable for the twelve-month period ending September 30, 2022; and 21,350 shares will be exercisable for the twelve-month period ending September 30, 2023. Information related to stock options outstanding and exercisable at September 30, 2020, is as follows:

Options Outstanding (Unaudited)				Options Exercisable (Unaudited)			
Range of Exercise Prices	Shares Outstanding at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	
\$ 3.96	327,000	8.76	\$ 3.9600	242,250	8.76	\$ 3.9600	
\$ 9.00	12,000	9.25	9.0000	9,000	9.25	9.0000	
\$ 11.00 – 14.20	103,400	8.97	11.4426	35,506	8.78	12.1816	
\$ 20.50 – 27.50	141,000	7.16	24.3638	115,000	7.05	25.2374	
\$ 30.00 – 35.00	124,000	6.75	34.4012	124,000	6.75	34.4012	
	707,400	8.12	14.5422	528,756	7.92	16.3644	

As of September 30, 2020, total unrecognized stock-based compensation expense related to stock options was approximately \$800,000, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.47 years. No option was exercised during the nine-month period ended September 30, 2020 and the year ended December 31, 2019.

NOTE 17 – Commitments and Contingencies

As of September 30, 2020, the Company's significant commitment is summarized as follows:

Airbus SAS Agreement: On November 30, 2018, in furtherance of a memorandum of understanding signed in March 2018, the Company entered into an agreement with Airbus SAS ("Airbus"), pursuant to which Airbus will develop and certify a complete solution allowing the installation of our "AERKOMM K++" system on Airbus' single aisle aircraft family including the Airbus A319/320/321, for both Current Engine Option (CEO) and New Engine Option (NEO) models. Airbus will also apply for and obtain on our behalf a Supplemental Type Certificate (STC) from the European Aviation Safety Agency, or EASA, as well as from the U.S. Federal Aviation Administration or FAA, for the retrofit system. It is anticipated that the Bilateral Aviation Safety Agreement between EASA and the Civil Aviation Administration of China, or CAAC, will be finalized and go into effect in 2019. Pursuant to the terms of our Airbus agreement, The Company agreed to pay the service fees that Airbus provides the Company with the retrofit solution which will include the Service Bulletin and the material kits including the update of technical and operating manuals pertaining to the aircraft and provision of aircraft configuration control. The timeframe for the completion and testing of this retrofit solution, including the certification, is approximately 16 months from the purchase order issued in August 2018, although there is no guarantee that the project will be successfully completed in the projected timeframe.

Hong Kong Airlines Agreement: On January 30, 2020, Aircom signed an agreement with Hong Kong Airlines Ltd. (HKA) to provide to Hong Kong Airlines both of its Aerkomm AirCinema and AERKOMM K++ IFEC solutions. Under the terms of this new agreement, Aircom will provide HKA its Ka-band AERKOMM K++ IFEC system and its AERKOMM AirCinema system. HKA will become the first commercial airliner launch customer for Aircom.

Republic Engineers Complaint: On October 15, 2018, Aircom Telecom entered into a product purchase agreement, or the October 15th PPA, with Republic Engineers Maldives Pte. Ltd., a company affiliated with Republic Engineers Pte. Ltd., or Republic Engineers, a Singapore based, private construction and contracting company. On November 30, 2018, the October 15th PPA was re-executed with Republic Engineers Pte. Ltd. as the signing party. The Company refers to this new agreement as the November 30th PPA and, together with the October 15th PPA, the PPA. Under the terms of the PPA, Republic Engineers committed to the purchase of a minimum of 10 shipsets of the AERKOMM K++ system at an aggregate purchase price of \$10 million. Additionally, under the terms of the PPA, the Executive Director of Republic Engineers, C. A. Raja, agreed to sign an agreement, or the Guarantee, to guarantee all of the obligations of Republic Engineers under the PPA. Republic Engineers had submitted a purchase order, or PO, dated October 15, 2018 for the 10 shipsets and was supposed to have made payments to Aircom Telecom against the purchase order shortly thereafter. To date, Republic Engineers has made no payments against the purchase order and the Company has not begun any work on the ordered shipsets. On July 7, 2020, Republic Engineers and Mr. Raja filed a complaint against Aerkomm, Aircom and Aircom Telecom in the Superior Court of the State of California for the County of Alameda, or the Court, seeking declaratory relief only and no money damages, alleging that the PPA and the PO were not executed or authorized by Republic Engineers and that the Guarantee was not executed or authorized by Mr. Raja. Republic Engineers and C. A. Raja have requested from the Court (i) orders that the PPA, the PO and the Guarantee be declared null and void and (ii) the payment of their reasonable attorney's fees. On July 29, 2020, Aircom Telecom provided notice to Republic Engineers that the PPA and the PO have been terminated according to their terms as a result of the non-performance of Republic Engineers and the Failure of Mr. Raja to provide the Guarantee. Aerkomm denies the allegations in the complaint and believes that the claims filed by Republic Engineers and Mr. Raja have no merit. Aerkomm has retained special litigation counsel and intends to vigorously defend against the claims. Aerkomm does not expect that this proceeding will have a material adverse effect on its results of operations or cash flows.

Shenzhen Yihe: On June 20, 2018, the Company entered into the Cooperation Framework Agreement, as supplemented on July 19, 2019, with Shenzhen Yihe Culture Media Co., Ltd., or Yihe, the authorized agent of Guangdong Tengen Internet, or Tencent Group, pursuant to which Yihe agreed to assist the Company with public relations, advertising, market and brand promotion, as well as with the development of a working application of the Tencent Group WeChat Pay payment solution and WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes. As compensation under this Yihe agreement, the Company paid Yihe RMB 8 million (approximately US\$1.2 million). On October 16, 2020, in accordance with the provisions of the agreement with Yihe, as supplemented, the Company filed an arbitration action with the Shenzhen International Arbitration Court, or the Arbitration Court, claiming that Yihe failed to perform under the terms of the supplemented agreement and seeking a complete refund of our RMB 8 million payment to Yihe. The Company received notice from the Arbitration Court on October 16, 2020 of receipt of our arbitration filing and the requirement to pay the Arbitration Court RMB 190,000 in fees relating to the arbitration and the fees were paid on October 28, 2020. The Company intend to aggressively pursue this matter. As of September 30, 2020, the Company reclassified this prepayment to Other Receivable and provided an allowance for the full amount of \$1,155,623 (unaudited) against non-operating loss.

The COVID – 19 Pandemic: In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. The company in the process of evaluating if the pandemic will have a material impact on its operations.

BANK OF PANHSIN**Parent Company Only Financial Statements**

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

**Address: No. 68, Sec. 2, Xianmin Blvd., Banqiao Distr., New Taipei City, Taiwan,
R.O.C.**
Telephone: (02)2962-9170

The independent auditors' 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' report and parent company only financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Statements of Financial Position	4
5. Statements of Comprehensive Income	5
6. Statements of Changes in Equity	6
7. Statements of Cash Flows	7
8. Notes to the Financial Statements	
(1) Organization and Business Scope	8
(2) Financial statements authorization date and authorization process	8
(3) New standards and interpretations not yet adopted	9~11
(4) Summary of significant accounting policies	11~22
(5) Primary sources of significant accounting assumptions, judgments, and estimation uncertainty	22~23
(6) Explanation of significant accounts	23~82
(7) Related-party transactions	83~86
(8) Pledged assets	87
(9) Significant contingent liabilities and unrecognized contract commitments	87~90
(10) Signification disaster loss	90
(11) Subsequent events	90
(12) Other	91~99
(13) Notes to disclosure items	
(a) Information on significant transactions	100~101
(b) Information on investees	101
(c) Information regarding investment in China	101
(14) Operating segment information	101

Independent Auditors' Report

To the Board of Directors
Bank of Panhsin:

Opinion

We have audited the financial statements of Bank of Panhsin ("the Bank"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks".

Basis for Opinion

We conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants", Rule No. 10802731571 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2018 in accordance with the "Regulations Governing Auditing and Certification of Financial Industry 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 Company and its subsidiaries in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

1. Impairment of Loans and Receivables

Please refer to note 4(f) "loans and receivables" for related accounting policy, note 5 for the uncertainty of accounting estimation and assumptions, and notes 6(g), 6(h), 6(i), 6(u) and 6(an) for the details of the impairment of loans and receivables.

Description of Key audit matters

The Bank mainly engages in loan business. The Bank's loans and receivables are significant to its overall financial statements. Assessment on the impairment of loans and receivables, provisions for guarantee liabilities, and provisions for loan commitments rely on the management's assumptions of probability of default (PD) and expected credit loss (ECL). These assumptions are influenced by the historical experiences, current market conditions and forward-looking estimation, and therefore, have high uncertainty risks. Consequently, the impairment of loans and receivables has been identified as a key audit matter.

How the matter was addressed in our audit

Our principal audit procedures included: understanding and assessing the Bank's internal control procedures for loans and bad debt assessment; testing whether the loans and receivables are classified into each stage of expected credit loss according to the procedures for loans and bad debt assessment; testing whether the input values used for probability of default (PD) and expected credit loss (ECL) of each stage of expected credit loss are based on reasonable and verifiable information (including forward looking macroeconomic information). We also assessed whether the impaired amounts recognized by the management are in accordance with the related regulations issued by the authority.

2. Impairment of Goodwill

Please refer to note 4(k) "Intangible assets" for related accounting policy, note 5 for the uncertainty of accounting estimation and assumptions, and note 6(n) for the details of the impairment of goodwill.

Description of key audit matters

As of December 31, 2019, the Bank has goodwill amounting to \$2,197,921 thousand from its merger and acquisition activities over the years. Since the recoverable amount of goodwill depends on the management's estimation of discounted future cash flows, it relies on the management's subjective judgment of future operations and is highly uncertain. Therefore, we considered impairment of goodwill a key audit matter.

How the matter was addressed in our audit

Our principal audit procedures included: assessing how management identifies cash-generating units; understanding and testing management's assumptions on future operating plans, including future revenue growth rate and expense rate, etc.; and comparing actual performance with forecasts to determine the reasonableness of forecasts and future cash flows.

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

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

In preparing the financial statements, the management is responsible for assessing the Bank'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 the management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements 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 Lily Lu and Lin Wu.

KPMG

Taipei, Taiwan (Republic of China)

March 18, 2020

Notes to Readers

The accompanying parent company only financial statements are intended only to present the 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)
Bank of Panhsin

Statements of Financial Position

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018				December 31, 2019		December 31, 2018	
Assets		Amount	%	Amount	%	Liabilities and Equity		Amount	%	Amount	%
11000	Cash and cash equivalents (note 6(a))	\$ 4,814,052	2	4,943,462	2	21000	Deposits from Central Bank and other banks (note 6(p))	\$ 3,404,476	1	1,650,240	1
11500	Due from Central Bank and call loans to banks (notes 6(b) and 8)	9,390,804	4	10,874,533	5	22000	Financial liabilities at fair value through profit or loss (note 6(c))	4,303	-	28,226	-
12000	Financial assets at fair value through profit or loss (note 6(c))	906,373	-	1,100,594	1	22500	Securities sold under repurchase agreements (note 6(q))	3,165,799	1	2,913,216	1
12100	Financial assets at fair value through other comprehensive income (notes 6(d) and 8)	16,750,207	7	14,058,368	6	23000	Payables (notes 6(r) and 7)	2,402,215	1	3,204,523	1
12200	Investment in debt instruments at amortized cost (notes 6(e) and 8)	36,957,425	15	41,835,000	17	23200	Current income tax liabilities	7,648	-	-	-
12500	Securities purchased under resell agreements (note 6(f))	649,478	-	3,215,946	1	23500	Deposits and remittances (notes 6(s) and 7)	218,754,650	87	214,870,883	88
13000	Receivables, net (note 6(g))	1,581,468	1	1,604,095	1	24000	Financial debenture (notes 6(t) and 7)	6,971,000	3	6,311,000	3
13200	Current income tax assets	41,955	-	50,913	-	25600	Provisions (notes 6(u) and (x))	246,625	-	206,183	-
13500	Loans and discounts, net (notes 6(h) and 7)	165,944,398	66	152,561,304	62	26000	Lease liabilities (note 6(v))	356,686	-	-	-
15000	Investments accounted for using equity method, net (note 6(j))	1,006,607	-	872,761	-	29300	Deferred tax liabilities (note 6(y))	108,823	-	108,823	-
15500	Other financial assets, net (note 6(i))	-	-	184	-	29500	Other liabilities (notes 6(k) and (w))	158,650	-	169,535	-
18500	Property and equipment, net (note 6(k))	6,930,606	3	7,184,946	3		Total liabilities	235,580,875	93	229,462,629	94
18600	Right-of-use assets, net (notes 6(l) and 7)	352,061	-	-	-		Equity:				
18700	Investment property, net (note 6(m))	2,995,539	1	2,776,023	1	31101	Ordinary shares (note 6(z))	14,446,543	6	14,205,771	6
19000	Intangible assets, net (note 6(n))	2,355,794	1	2,369,131	1		Retained earnings (note 6(aa)):				
19300	Deferred income tax assets, net (note 6(y))	420,911	-	490,491	-	32001	Legal reserve	691,804	-	587,873	-
19500	Other assets (notes 6(o) and 8)	904,023	-	929,075	-	32003	Special reserve	4,459	-	54,313	-
						32005	Unappropriated earnings	907,652	1	294,851	-
								1,603,915	1	937,037	-
						32500	Other equity (note 6(z))	370,368	-	261,389	-
							Total equity	16,420,826	7	15,404,197	6
Total assets		\$ 252,001,701	100	244,866,826	100		Total liabilities and equity	\$ 252,001,701	100	244,866,826	100

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
Bank of Panhsin

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

	2019		2018		Variance
	Amount	%	Amount	%	
41000 Interest income (notes 6(ac) and 7)	\$ 4,404,845	116	4,122,155	116	7
51000 Less: Interest expense (notes 6(ac) and 7)	<u>1,938,560</u>	<u>51</u>	<u>1,837,995</u>	<u>52</u>	5
Net income of interest	2,466,285	65	2,284,160	64	8
Net non-interest income					
49100 Service fees, net (note 6(ad))	917,148	24	775,085	22	18
49200 Gain (loss) on financial asset or liabilities at fair value through profit or loss (note 6(ae))	82,900	2	(69,482)	(2)	219
49310 Realized gain on financial assets at fair value through other comprehensive income (notes 6(d) and (af))	133,912	3	56,477	2	137
49600 Foreign exchange gain (loss), net	(15,796)	-	106,629	3	(115)
49700 Reversal of (provision for) impairment loss on assets (notes 6(d), (e), (o) and (ag))	(15,210)	-	2,898	-	(625)
49750 Investment income under the equity method	118,561	3	44,186	1	168
49800 Other non-interest income (loss), net (notes 6(m), (ah) and 7)	(5,985)	-	8,779	-	(168)
49823 Gain (loss) on disposal of foreclosed assets (notes 6(o) and 7)	(436)	-	223,275	6	(100)
49851 Rental income (note 7)	113,842	3	106,451	3	7
49863 Net gain on disposal of property (note 6(k))	<u>19,878</u>	<u>-</u>	<u>19,878</u>	<u>1</u>	-
Total income	<u>3,815,099</u>	<u>100</u>	<u>3,558,336</u>	<u>100</u>	7
58200 Bad debt expense and reserve for guarantees (notes 6(g), (h), (i), (u) and (ai))	<u>65,241</u>	<u>2</u>	<u>535,631</u>	<u>15</u>	(88)
Operation expense:					
58500 Employee benefit expense (notes 6(x), (aj) and (ak))	1,598,022	42	1,469,297	41	9
59000 Depreciation and amortization expense (notes 6(k), (l), (n) and (al))	356,746	9	178,098	5	100
59500 Other general and administrative expense (notes 6(am) and 7)	<u>785,651</u>	<u>20</u>	<u>938,265</u>	<u>27</u>	(16)
Total Expenses	<u>2,740,419</u>	<u>71</u>	<u>2,585,660</u>	<u>73</u>	6
Profit from continuing operations before tax	1,009,439	27	437,045	12	131
61003 Less: Income tax expense (note 6(y))	<u>(117,990)</u>	<u>(3)</u>	<u>(45,579)</u>	<u>(1)</u>	(159)
Profit	<u>891,449</u>	<u>24</u>	<u>391,466</u>	<u>11</u>	128
65000 Other comprehensive income:					
65200 Components of other comprehensive income that will not be reclassified to profit or loss (note 6(x))					
65201 Gains (losses) on remeasurements of defined benefit plans	(28,432)	(1)	84	-	(33,948)
65204 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	46,111	1	219,488	6	(79)
65220 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-
Components of other comprehensive income that will not be reclassified to profit or loss	<u>17,679</u>	<u>-</u>	<u>219,572</u>	<u>6</u>	(92)
65300 Components of other comprehensive income (loss) that will be reclassified to profit or loss					
65301 Exchange differences on translation of foreign financial statements	(7,981)	-	2,910	-	(374)
65308 Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	115,648	3	(29,553)	(1)	491
65319 Other components of other comprehensive income that will be reclassified to profit or loss	(166)	-	(2,898)	-	94
65320 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>107,501</u>	<u>3</u>	<u>(29,541)</u>	<u>(1)</u>	464
65000 Other comprehensive income	<u>125,180</u>	<u>3</u>	<u>190,031</u>	<u>5</u>	(34)
Total comprehensive income	<u>\$ 1,016,629</u>	<u>27</u>	<u>581,497</u>	<u>16</u>	75
Earnings per share(expressed in New Taiwan dollars) (note 6(ab)):					
67500 Basic earnings per share	\$ <u>0.62</u>		\$ <u>0.28</u>		
67700 Diluted earnings per share	\$ <u>0.62</u>		\$ <u>0.28</u>		

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
Bank of Panhsin

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

	Retained earnings					Total other equity interest				Total equity
	Common stock	Legal reserve	Special reserve	Retained earnings	Total retained earnings	Foreign currency translation differences for foreign operations	Gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	
Balance at January 1, 2018	\$ 13,565,849	523,024	80,880	185,136	789,040	4,656	-	(56,243)	(51,587)	14,303,302
Effects of retrospective application	-	-	-	(74,371)	(74,371)	-	87,526	56,243	143,769	69,398
Balance on January 1, 2018 after adjustments	13,565,849	523,024	80,880	110,765	714,669	4,656	87,526	-	92,182	14,372,700
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	64,849	-	(64,849)	-	-	-	-	-	-
Stock dividends of ordinary share	189,922	-	-	(189,922)	(189,922)	-	-	-	-	-
Reversal of special reserve	-	-	(26,567)	26,567	-	-	-	-	-	-
Net Income	-	-	-	391,466	391,466	-	-	-	-	391,466
Other comprehensive income	-	-	-	84	84	2,910	187,037	-	189,947	190,031
Total comprehensive income	-	-	-	391,550	391,550	2,910	187,037	-	189,947	581,497
Issue of shares	450,000	-	-	-	-	-	-	-	-	450,000
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	20,740	20,740	-	(20,740)	-	(20,740)	-
Balance at December 31, 2018	14,205,771	587,873	54,313	294,851	937,037	7,566	253,823	-	261,389	15,404,197
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	103,931	-	(103,931)	-	-	-	-	-	-
Stock dividends of ordinary share	240,772	-	-	(240,772)	(240,772)	-	-	-	-	-
Reversal of special reserve	-	-	(49,854)	49,854	-	-	-	-	-	-
Net income	-	-	-	891,449	891,449	-	-	-	-	891,449
Other comprehensive income	-	-	-	(28,432)	(28,432)	(7,981)	161,593	-	153,612	125,180
Total comprehensive income	-	-	-	863,017	863,017	(7,981)	161,593	-	153,612	1,016,629
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	44,633	44,633	-	(44,633)	-	(44,633)	-
Balance at December 31, 2019	<u>\$ 14,446,543</u>	<u>691,804</u>	<u>4,459</u>	<u>907,652</u>	<u>1,603,915</u>	<u>(415)</u>	<u>370,783</u>	<u>-</u>	<u>370,368</u>	<u>16,420,826</u>

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

Bank of Panhsin

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:		
Income before income tax expense	\$ 1,009,439	437,045
Adjustments:		
Adjustments for the effects of non-cash transactions:		
Depreciation expense	343,817	169,718
Amortization expense	42,462	36,291
Provision for bad debt expense, commitment and guarantee liability provision	65,241	535,631
Interest expense	1,938,560	1,837,995
Interest income	(4,404,845)	(4,122,155)
Dividend income	(72,821)	(66,360)
Net change in other provisions	-	(4,048)
Loss (gain) on disposal for foreclosed collaterals	436	(223,275)
Share of profit of subsidiaries	(118,561)	(44,186)
Gain on disposal of property and equipment	(14,629)	(16,760)
Loss on disposal intangible assets	-	19
Impairment loss (gain) on financial assets	267	(2,898)
Impairment loss on non-financial assets	14,943	-
Total adjustments to reconcile net income	(2,205,130)	(1,900,028)
Changes in operating assets and liabilities:		
Due from Central Bank and call loans to banks	(64,823)	812,783
Financial assets at fair value through profit or loss	194,221	3,653,151
Financial assets at fair value through other comprehensive income	(2,530,080)	(3,447,949)
Investments in debt instruments measured at amortised cost	4,877,142	(9,405,000)
Receivables	23,316	162,192
Loans and discounts, net	(13,423,785)	(9,034,679)
Other financial assets	(14,911)	(184)
Deposits from Central Bank and other banks	1,754,236	331,181
Financial liabilities at fair value through profit or loss	(23,923)	22,469
Payables	(791,592)	(258,905)
Deposits and remittances	3,883,767	3,153,386
Provision for employee benefit	547	(373)
Other liabilities	8,993	291
Total net changes in operating assets and liabilities	(6,106,892)	(14,011,637)
Total adjustments	(8,312,022)	(15,911,665)
Cash inflow (outflow) generated used in operations	(7,302,583)	(15,474,620)
Interest received	4,402,814	4,060,616
Dividends received	107,536	66,360
Interest paid	(1,940,624)	(1,812,219)
Income taxes paid	(31,804)	(23,652)
Net Cash flows used inoperating activities	(4,764,661)	(13,183,515)
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method	(50,000)	-
Acquisition of property and equipment	(42,911)	(1,346,309)
Disposal of foreclosed collateral	11,605	1,004,429
Acquisition of foreclosed collateral	(110,295)	-
Other assets	(27,775)	(151,228)
Net cash flows used in investing activities	(219,376)	(493,108)
Cash flows from (used in) financing activities:		
Proceeds from issuing financial debenture	660,000	-
Repayments of financial debenture	-	(800,000)
Increase of securities sold under repurchase agreement	252,583	2,370,799
Payments of lease liabilities	(164,995)	-
Proceeds from issuing shares	-	450,000
Net cash flows from financing activities	747,588	2,020,799
Effect of exchange rate changes on cash and cash equivalents	(7,981)	2,910
Net decrease in cash and cash equivalents	(4,244,430)	(11,652,914)
Cash and cash equivalents at beginning of period	12,992,671	24,645,585
Cash and cash equivalents at end of period	\$ 8,748,241	12,992,671
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 4,814,052	4,943,462
Due from Central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	3,284,711	4,833,263
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	649,478	3,215,946
Cash and cash equivalents at end of period	\$ 8,748,241	12,992,671

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

Bank of Panhsin

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(1) Organization and Business Scope

Bank of Panhsin (the Bank), formerly named "Pan Chiao Credit Cooperative", was founded on April 25, 1957. Pursuant to an approval granted by the Ministry of Finance, the Bank was re incorporated as a commercial bank on July 8, 1997, and completed the acquisition of "The Fifth Credit Cooperative of Kaohsiung" on September 29, 1997. The Bank obtained a banking license authorized by the Ministry of Finance to operate as a commercial bank on September 30, 1997. In October 1999, the Bank received its trust license from the Ministry of Finance and started operations on November 26 of the same year with capital of \$100 million. On November 27, 2002, the Bank was authorized by the Ministry of Finance to establish an International Banking Department, which started operations on July 7, 2003. Furthermore, the Bank completed the acquisition of The First Credit Cooperative of Chiayi on March 6, 2005, and completed the acquisition of the Ninth Credit Cooperative of Taipei (NCCT) on July 21, 2014.

The Bank was established pursuant to the Banking Law to engage in:

- (a) all commercial banking operations allowed by the Banking Law;
- (b) savings operations;
- (c) trust operations;
- (d) credit card operations;
- (e) trading in government bonds and other debt securities; and
- (f) insurance agent;
- (g) other operations as authorized by the relevant central authority.

On November 14, 2006, the Bank was approved by the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan ("FSC"), to offer its shares publicly.

The Bank's board of director approved the application for operating insurance broker business according to the Regulations Governing Insurance Brokers and conducted a short-form merger with its subsidiary, Panhsin Insurance Broker Co., Ltd., according to the Business Mergers and Acquisitions Act. The Bank is the surviving entity after the merger. The application and the merger were approved by the FSC on May 6, 2016. For the operation of the insurance broker business, the Bank's board of director approved July 1, 2016 as the date of the merger on May 18, 2016.

(2) Financial statements authorization date and authorization process

These financial statements were authorized for issuance by the Bank's Board of Directors on March 18, 2020.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(3) New standards and interpretations not yet adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

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

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

(i) Definition of a lease

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

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank 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.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ii) As a lessee

As a lessee, the Bank 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 Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Bank decided to apply recognition exemptions to short-term leases of machinery and leases of parking space.

Leases classified as operating leases under IAS 17, the amount is measured by remaining operating leases' present value when transition, and use the incremental borrowing rate of interest when the day applicable as discount rate. Right-of-use assets is measured at the amount of operating leases. Adjust the amount related to the payment of prepaid and payable expense.

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(iii) As a lessor

The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, and accounted for its leases in accordance with IFRS 16 from the date of initial application.

(iv) Impacts on financial statements

On transition to IFRS 16, the Bank recognized additional \$407,800 of right-of-use assets and \$413,103 of lease liabilities; eliminated \$3,349 and payables \$8,652. When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.76%.

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:

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Bank's financial statements	\$ 441,582
Recognition exemption for:	
Leases of low-value assets	(7,150)
	<u>\$ 434,432</u>
Lease liabilities recognized at January 1, 2019	<u>\$ 413,103</u>

(Continued)

Bank of Panhsin
Notes to the 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 Bank assesses that the adoption of the abovementioned standards would not have any material impact on its 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 Bank 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 Bank completes its evaluation.

(4) Summary of significant accounting policies

Significant accounting policies adopted in the financial reports are summarized as below. Unless stated otherwise, they have been applied consistently to all periods in the financial reports.

- (a) Statement of compliance

The financial statements were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks.

- (b) Basis of preparation

- (i) Basis of measurement

The financial statements have been mainly prepared on a historical cost basis unless otherwise specified (refer to each accounting policies).

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ii) Functional currency and presentation currency

The Bank's financial statements are presented in New Taiwan dollars, which is the Bank's functional currency. The assets and liabilities of foreign operations 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. Exchange differences are recognized in other comprehensive income. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Foreign currency transactions

Transactions denominated or settled in foreign currencies are using the spot conversion rate to functional currency on the date of the transaction.

Transactions in foreign currencies are translated to the respective functional currency of the Bank at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, checks for clearing, due from banks, demand deposits, and highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of change in value.

(e) Transactions under repurchase/resell agreements

Securities sold/purchased with a commitment to repurchase/resell at a predetermined price are treated as financing transactions. On the selling/purchasing date, these agreements are recognized as securities sold under repurchase agreements or securities purchased under resell agreements. The difference between the cost and the repurchase/resell price is treated as interest expense/revenue and recognized over the term of the agreement.

(f) Financial instruments

(i) Financial assets

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

(Continued)

Bank of Panhsin
Notes to the Financial Statements

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 measured 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 amount outstanding.

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

2) Fair value through other comprehensive income (FVOCI)

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

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

The debt instruments measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. The resulting gain or loss from such fair value remeasurement is recognized directly in other comprehensive income. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. The credit impairment losses recognized before derecognition, interest income and foreign exchange gains and losses deriving from debt investments are recognized in profit or loss. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss.

On initial recognition of an equity investment that is not held-for-trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

The equity instruments measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. The dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. The resulting gain or loss from such fair value remeasurement is recognized directly in other comprehensive income. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

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

3) Fair value through profit or loss (FVTPL)

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

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

4) Impairment of financial assets

The Bank recognizes loss allowances for expected credit losses on financial assets measured at amortized cost, debt investments measured at FVOCI and financing commitments; and on "Loans and receivables" and off-balance-sheet loan assets in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-Performing and Non-Accrued Loans" for the provision of appropriate allowance for loss, guarantee reserve and financing commitment reserve.

The Bank determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Bank 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 Bank's historical experience and informed credit assessment, as well as forward-looking information.

Lifetime expected credit loss (ECL) are the ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

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

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Credits deemed as uncollectible are written off upon approval of the board of directors. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the assets are terminated, or when the Bank transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Bank recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity-unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in realized gain and loss on financial assets measured at fair value through other comprehensive income.

On derecognition of a financial asset other than in its entirety, the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, is recognized in profit or loss and presented in realized gain and loss on financial assets measured at fair value through other comprehensive income. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial liabilities

1) Subsequent measurement

Except for financial liabilities at fair value through profit or loss, all financial liabilities are evaluated by using the amortized cost under the effective interest rate method.

Financial liabilities at fair value through profit or loss includes financial liabilities held-for-trading and financial liabilities measured at fair value through profit or loss.

Any profit or loss remeasurement from financial liabilities held-for-trading (including any dividend payout or interest expense) are recognized in profit or loss.

The Bank designates its financial liabilities, other than those classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

(Continued)

Bank of Panhsin
Notes to the Financial Statements

- Performance of the financial liabilities is evaluated on a fair value basis;
- A hybrid instrument contains one or more embedded derivatives.

For financial liabilities measured at fair value through profit or loss, their fair value that changes due to the liabilities that are exposed to credit risk should be recognized under other comprehensive income. The financial liabilities will be reclassified to retained earnings then subsequently reclassified under profit or loss during derecognition. All changes in other fair value (including any dividend payout or interest expense) should be recognized under profit or loss. If, and only if, an accounting mismatch occurs, the changes in fair value shall be accounted as current profit or loss.

2) Derecognition

The difference between the carry amount and the payment (including all transferred non-case assets or liabilities) should be accounted as current profit or loss when derecognizing financial liabilities.

(g) Investments accounted for using equity method, net

In the preparation of the financial statements, if the Bank has control of an investee company, it is accounted for under the equity method. Under the equity method, the net income and total comprehensive income in the financial statements are consistent with the net income and total comprehensive income attributed to the parent company in the consolidated financial report.

Changes in the Bank's ownership interest in a subsidiary that do not result in the Bank losing control of the subsidiary are treated as transactions between owners.

(h) Property and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Major improvements and renewals are capitalized, while repairs and maintenance are charged to current expenses.

When an item of property, plant and equipment consists of different components and the cost of a component is significant relative to the total cost of the item of property, plant and equipment, the component will be depreciated separately.

Depreciation is computed using the straight-line method over service lives estimated as follows: buildings, 7 to 65 years; machinery and equipment, 3 to 13 years; transportation equipment, 3 to 11 years; other equipment, 3 to 16 years; and leasehold improvements, 1 to 11 years.

The depreciation method, useful life, and residual value of an asset shall be reviewed at each financial year-end and adequately adjusted when necessary.

Upon retirement or disposal of property and equipment, the related cost and accumulated depreciation are deducted from the respective accounts, and the related gain or loss is recognized as other noninterest income or loss.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(i) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Bank 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.

(ii) As a lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by 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 Bank's incremental borrowing rate, and measured at amortized cost using the effective interest method in the subsequent. When the lease liability is remeasured, 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.

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

(iii) As a lessor

When the Bank acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Applicable before January 1, 2019

A lease contract is classified as an operating lease or a finance lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the Bank. At initial recognition, the leased asset is recognized at an amount equal to the lower of the fair value of the leased asset or the present value of the minimum lease payments. The subsequent treatment follows the accounting policies for property, plant and equipment.

Lease payments, including payments in advance, under an operating lease shall be recognized in profit or loss on a straight-line basis over the lease term.

(j) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, or to use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently measured under the cost model, and the depreciation expense is calculated using the depreciable amount. The depreciation method, useful life, and residual amount are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property and any other cost and capitalized borrowing costs that can be directly attributed.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(k) Intangible assets

(i) Goodwill

Goodwill is measured as an excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired on the acquisition date. It is subsequently measured at cost, less, any accumulated impairment losses. To test for impairment, goodwill is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Bank shall recognize the impairment loss. Impairment losses in respect of goodwill are irreversible.

(ii) Core deposits

Core deposits obtained from acquisition is measured on the fair value of the acquisition date and recorded separately from goodwill. Core deposits are stated at cost, less, accumulated amortization consequently. Amortization is computed using the straight-line method over 19 to 20 years.

(iii) Computer software

Computer software is recorded on the basis of the actual cost of acquisition and amortized using the straight-line method over 3 to 10 years.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(l) Other assets — foreclosed collateral

Foreclosed collateral are initially recognized at the sale price. Any difference from the original value of the loans is recognized as bad debts. Foreclosed assets are remeasured at the net realizable value (NRV) on the reporting date, and recognized impairment losses if sufficient evidence shows the fair value is lower than the book value. Losses or gains on the disposal of foreclosed assets are recorded as other non-interest expense or income, net.

(m) Impairment of non-financial assets

The Bank estimates the recoverable amount (the lower of net fair value and value in use) for assets that have an indication of impairment (individual assets except for goodwill or a cash-generating unit) on the statement of financial position date. An impairment loss is recognized if the carrying amount is higher than the recoverable amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior-period estimation. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods. Regardless whether there exists an indication of impairment, goodwill is tested for impairment every year.

(n) Provisions

A provision shall be recognized when a present obligation results from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. A provision is determined by discounting the expected future cash flow, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the liability.

(o) Revenue and expense

Except for financial assets and liabilities reported at fair value through profit or loss, all interest-bearing financial assets and interest-bearing financial liabilities are accrued using the effective interest rate method and are accounted for as interest revenue and interest expense in profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest revenue is recognized using the interest rate to discount the future cash flows for the purpose of assessing impairment.

Commission fee revenue and expense are recognized when loans or other services are provided. Commission fee revenue and expense on significant projects are recognized when the projects are completed.

Commission revenue and fees relating to loan services are amortized over the service periods or included in the effective interest rate for loans and receivables.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(p) Employee benefits

(i) Short-term employee benefits

For short-term employee benefits that are expected to be paid in the near future, the Bank recognized the non-discounted amount as current expenses.

(ii) Termination benefits

Termination benefits are incurred when the Bank terminates employment prior to employees qualifying for retirement, or the employees accepted voluntary redundancy to get termination benefits in return. If termination benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iii) Post-employment benefit plans

Post-employment benefit plans of the Bank are a defined contribution plan and a defined benefit plan.

A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

A defined benefit plan is a post-employment benefit plan under which a benefit is paid to an employee on the basis of their age, service period, and salary at the date of retirement.

Costs, including service cost, net interest, and rereasurement, which comprise of the defined benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefit expenses in the period they occur. Rereasurement, comprising actuarial gains and losses, and the return on plan assets, excluding the amount included in net interest on the net defined liability (asset), are recognized in other comprehensive income in the period occurred. Rereasurement recognized in other comprehensive income is classified under retained earnings and will not be reclassified subsequently to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in the future contributions to the plans.

(iv) Preferential interest deposits

The Bank provides its employees preferential interest on deposits, including current and retired employees. The difference between the preferential interest rate and the market rate is recorded as an employee benefit.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

In accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Banks, if the preferential interest rate for retired employees exceeds the market rate, when the employees retire, the Bank shall calculate the excess interest using an actuarial method by adopting IAS 19. However the actuarial assumptions shall follow the government's related regulations.

(q) **Financial guarantee contracts**

Guarantee services are recognized at the fair value when the guarantee services are rendered. The aforementioned fair value is the service charges received when the contracts are signed, since the charges are set at arm's length. Unearned bank charges are recorded as deferred income and recognized as income on a straight-line basis in the contract period.

(r) **Income taxes**

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

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

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 tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

A deferred tax asset should be recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. Such deferred tax assets shall also be reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(s) Business combinations

The Business Combinations use the acquisition method. The relevant cost of acquisition is recognized as expense during the period year when expense occurred or services provided.

The Bank measures goodwill by the fair value of the transfer consideration, including any amount belonging to non-controlling interests of the acquire, less, net amount of the identifiable assets and undertaking liabilities (used to be identified as fair value). If there is any negative after deduction, the Bank will reassess whether the acquired assets and undertaking liabilities are correctly identified, then will recognize the amount as bargain purchase benefit.

The Bank will recognize the tentative amounts on the reporting date if the evaluation of the identifiable assets and undertaking liabilities has not yet been completed. To reflect the new information or the existing facts on the acquisition date, the Bank will make retroactive adjustment or recognize the additional assets and liability in the measurement period. The measurement period shall not exceed one year after the acquisition date.

(t) Earnings per share of common stock

Earnings (loss) per share are computed by dividing net income (loss) divided by the weighted-average number of issued shares of common stock outstanding during the year. The increase in issuance of stock dividends from retained earnings or capital surplus or the decrease in stock by offsetting accumulated deficits is adjusted retroactively. Furthermore, if the designated date of record for a stock dividend is proposed before publishing the financial statements, the earnings per common share are adjusted retroactively. If there is cumulative preferred stock outstanding, preferred stock dividends shall be deducted from net income whether or not dividends are declared.

Stock-based employee bonuses not yet approved by the shareholders' meeting are regarded as potential common stock. The Bank has to disclose basic earnings per share and diluted earnings per share if the increase in potential common stock would dilute earnings per share; otherwise, the Bank only needs to disclose basic earnings per share. The calculation of diluted earnings per share should consider the effect on net income and outstanding potential common stock.

(u) Operating segments

An operating segment is a component of the Bank 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 Bank). The segment's operating results are reviewed regularly by the Bank's chief operating decision maker to make decisions pertaining to the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

The Bank discloses the operating segment information in the consolidated financial statements and does not disclose the information in the financial statements.

(5) Primary sources of significant accounting assumptions, judgments, and estimation uncertainty

The preparation of the 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.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

The related information of significant impacts on assumptions and estimation uncertainty which may result in adjustments in the upcoming year is as below:

(a) Assessment of financial assets impairment

The Bank recognizes loss allowances for expected credit losses on loans and receivables, debt instruments and financial guarantee contracts. Assessing the expected credit losses relies on the management's assumptions of probability of default (PD) and expected credit loss (ECL). The Bank considers the historical experiences, current market conditions and forward-looking estimation to the input values to be used in determining the impairment loss. The Bank periodically reviews the methods and assumptions behind the amount and schedule of expected credit loss to reduce the difference between expected and actual loss. For the details of the relevant assumptions, please refer to note 6(an).

(b) Assessment of goodwill impairment

Assessment of goodwill impairment requires the management to make subjective judgments to identify cash-generating units, allocate the goodwill to related cash generating units, and estimate the recoverable amount of related cash generating units. The management of the Bank shall estimate the expected future cash flow from cash generating units and decide a proper discount rate for calculating the present value. If the actual cash flow is less than the expected cash flow, significant impairment losses may incur.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 3,611,693	1,838,070
Checks for clearing	306,310	1,078,004
Due from banks	<u>896,049</u>	<u>2,027,388</u>
Total	<u><u>\$ 4,814,052</u></u>	<u><u>4,943,462</u></u>

Components of cash and cash equivalents are as follows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents reported in the statements of financial position	\$ 4,814,052	4,943,462
Due from Central Bank and call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 (note 6(b))	3,284,711	4,833,263
Securities purchased under resell agreements qualifying as cash and cash equivalents under the definition of IAS 7 (note 6(f))	649,478	3,215,946
Cash and cash equivalents at end of period	<u><u>\$ 8,748,241</u></u>	<u><u>12,992,671</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Analysis of interest rate risk and sensitivity for financial assets and liabilities is disclosed in note 6(an).

(b) Due from Central Bank and call loans to banks

	December 31, 2019	December 31, 2018
Deposit reserves—account A(including foreign currency)	\$ 2,200,894	2,652,773
Deposit reserves—account B	5,955,896	5,740,703
Call loans to banks	1,083,817	2,180,490
Checking and settlement account	<u>150,197</u>	<u>300,567</u>
Total	<u><u>\$ 9,390,804</u></u>	<u><u>10,874,533</u></u>

Deposit reserves—account A are calculated at prescribed rates, using the average monthly balances of various deposit accounts, and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposit reserves—account B are interest-free and can be withdrawn at any time; Deposit reserves—account A are interest-bearing and cannot be withdrawn except for the monthly adjustment to the required reserves permitted by relevant regulations.

Call loans to banks, deposit reserves—account A, due from Central Bank, and highly liquid investments that are readily convertible into known amount of cash and that are subject to insignificant risk of change in value are defined as cash and cash equivalents under IAS 7. The details were as follows:

	December 31, 2019	December 31, 2018
Deposit reserves—account A	\$ 2,200,894	2,652,773
Call loans to banks	<u>1,083,817</u>	<u>2,180,490</u>
	<u><u>\$ 3,284,711</u></u>	<u><u>4,833,263</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

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

As of December 31, 2019 and 2018, the financial assets at fair value through profit or loss were as follows:

	December 31, 2019	December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Fixed income	\$ 805,633	1,041,694
Equity securities	8,805	34,817
Beneficiary certificates	68,060	15,443
Derivatives	23,875	8,640
Total	<u>\$ 906,373</u>	<u>1,100,594</u>

As of December 31, 2019 and 2018 the financial liabilities at fair value through profit or loss were as follows:

	December 31, 2019	December 31, 2018
Derivatives	<u>\$ 4,303</u>	<u>28,226</u>

There were no financial liabilities designated at fair value through profit or loss.

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

	December 31, 2019	December 31, 2018
Investments in debt instruments at fair value through other comprehensive income :		
Government bonds	\$ 14,090,495	11,609,487
Corporate bonds	1,000,000	1,000,000
Financial debenture	645,120	748,608
Revaluation	89,455	(26,193)
Subtotal	<u>15,825,070</u>	<u>13,331,902</u>
Investments in equity instruments measured at fair value through other comprehensive income:		
Listed companies	585,618	388,425
Private companies	60,477	60,477
Revaluation	279,042	277,564
Subtotal	<u>925,137</u>	<u>726,466</u>
Total	<u>\$ 16,750,207</u>	<u>14,058,368</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(i) Investments in debt instruments at fair value through other comprehensive income

The Bank assesses that these securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities. For securities sold under repurchase agreements, please refer to note 6(q).

(ii) Investment in equity instruments at fair value through other comprehensive income

The purpose of the company holding this kind of assets is for long-term investments, and had been measured at fair value through other comprehensive income.

The Bank sold its investments which were designated as at fair value through other comprehensive income due to assets allocation. The fair value of the disposed investments and the gain on disposal amounted to \$784,106 and \$738,547, respectively, for the years ended December 31, 2019 and 2018. Thus, the accumulated gains on disposal were transferred from other equity to retained earnings. \$44,633 and \$20,740, respectively.

The dividend revenue of investment in equity instruments at fair value through other comprehensive income for the years ended December 31, 2019 and 2018 is as follows,

	2019	2018
Derecognize in reporting period	\$ 16,116	5,006
Holding at the end of reporting date	40,816	44,350
Total	<u>\$ 56,932</u>	<u>49,356</u>

(iii) Please refer to note 6(an) for the credit risk (including the impairment of investment in debt instruments) and market risk information.

(iv) Please refer to note 8 for pledged financial assets measured at fair value through other comprehensive income.

(v) Impairment loss of debt instruments at fair value through other comprehensive income recognized was as follow:

	2019			
	12-month ECL	Lifetime ECL- not impairment	Lifetime ECL- impairment	Total
Balance at January 1, 2019	\$ 2,452	-	-	2,452
Changes due to financial instruments that have been identified at the beginning of the period:				
— The financial assets that have been derecognized	(16)	-	-	(16)
Foreign exchange and other movements	(150)	-	-	(150)
Balance at December 31, 2019	<u>\$ 2,286</u>	<u>-</u>	<u>-</u>	<u>2,286</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

	2018			
	12-month ECL	Lifetime ECL- not impairment	Lifetime ECL- impairment	Total
Balance at January 1, 2018	\$ 5,350	-	-	5,350
Changes due to financial instruments that have been identified at the beginning of the period:				
-- The financial assets that have been derecognized	(3,164)	-	-	(3,164)
Purchased or originated financial assets	264	-	-	264
Foreign exchange and other movements	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
Balance at December 31, 2018	<u>\$ 2,452</u>	<u>-</u>	<u>-</u>	<u>2,452</u>

(e) Financial assets at amortized cost

	December 31, 2019	December 31, 2018
Negotiable certificates of deposit	\$ 34,165,000	41,835,000
Foreign bonds	2,792,858	-
Less: accumulated impairment	<u>(433)</u>	<u>-</u>
Total	<u>\$ 36,957,425</u>	<u>41,835,000</u>

	2019			
	12-month ECL	Lifetime ECL- not impairment	Lifetime ECL- impairment	Total
Balance at January 1, 2019	\$ -	-	-	-
Purchased or originated financial assets	433	-	-	433
Balance at December 31, 2019	<u>\$ 433</u>	<u>-</u>	<u>-</u>	<u>433</u>

The Bank assessed that these financial assets were held-to-maturity to collect the contractual cash flows, which consisted solely of payments of principal and interest on principal amount outstanding.

Please refer to Note 6 (an) for the credit risk (including the impairment of investment in debt instruments) and market risk information.

(f) Securities purchased under resell agreements

	December 31, 2019			
	Amount	Contractual repurchase or resell period	Contractual interest rate range (%)	Amount of resell agreements
Securities purchased under resell agreements	<u>\$ 649,478</u>	2020.1.2~2020.1.3	0.56~0.57	<u>649,537</u>

	December 31, 2018			
	Amount	Contractual repurchase or resell period	Contractual interest rate range (%)	Amount of resell agreements
Securities purchased under resell agreements	<u>\$ 3,215,946</u>	2019.1.2~2019.1.9	0.61~0.64	<u>3,216,457</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(g) Receivables, net

	December 31, 2019	December 31, 2018
Interests receivable	\$ 332,283	330,252
Accounts receivable	72,036	87,683
Spot exchange receivable	799,403	895,951
Acceptance receivable	274,198	155,292
Accrued revenue	68,197	83,940
Securities settlement	-	7,648
Other receivables	<u>46,398</u>	<u>54,310</u>
Total	1,592,515	1,615,076
Less: allowance for interests receivable	(2,975)	(2,975)
allowance for acceptance receivable	(5,116)	(6,136)
allowance for other receivable	<u>(2,956)</u>	<u>(1,870)</u>
	<u><u>\$ 1,581,468</u></u>	<u><u>1,604,095</u></u>

For the years ended December 31, 2019 and 2018, changes in allowance for receivables was as follows:

	2019						
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	Total
Beginning balance	\$ 3,496	204	1,244	-	4,944	6,037	10,981
Changes due to financial instruments that have been identified at the beginning of the period:							
—Transfer to lifetime ECL	(2)	42	(40)	-	-		-
—Transfer to credit-impaired financial assets	(23)	(32)	55	-	-		-
—Transfer to 12-month ECL	10	(7)	(3)	-	-		-
—The financial assets that have been derecognized	(2,965)	(31)	(336)	-	(3,332)		(3,332)
New financial assets originated or purchased	6,205	18	273	-	6,496		6,496
Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non- performing / Non-accrual Loans"						(3,540)	(3,540)
Write-offs	-	-	(1,276)	-	(1,276)		(1,276)
Foreign exchange and other movements	12	(53)	1,759	-	1,718		1,718
Ending balance	<u>\$ 6,733</u>	<u>141</u>	<u>1,676</u>	<u>-</u>	<u>8,550</u>	<u>2,497</u>	<u>11,047</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

	2018						
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	Total
Beginning balance	\$ 4,142	330	1,728	-	6,200	44	6,244
Changes due to financial instruments that have been identified at the beginning of the period:							
— Transfer to lifetime ECL	(23)	45	(22)	-	-		-
— Transfer to credit-impaired financial assets	(286)	(109)	395	-	-		-
— The financial assets that have been derecognized	(3,796)	(23)	(344)	-	(4,163)		(4,163)
New financial assets originated or purchased	3,182	6	268	-	3,456		3,456
Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non- performing / Non-accrual Loans"						5,993	5,993
Write-offs	-	-	(4,025)	-	(4,025)		(4,025)
Recoveries	-	-	5,011	-	5,011		5,011
Foreign exchange and other movements	277	(45)	(1,767)	-	(1,535)		(1,535)
Ending balance	<u>\$ 3,496</u>	<u>204</u>	<u>1,244</u>	<u>-</u>	<u>4,944</u>	<u>6,037</u>	<u>10,981</u>

(h) Loans and discounts, net

	December 31, 2019	December 31, 2018
Export bills negotiated and Bills and notes discounted	\$ 218,610	125,006
Short-term loans and overdrafts	63,344,210	60,295,878
Medium-term loans	61,107,067	52,321,172
Long-term loans	42,842,365	40,432,453
Non-performing loans	<u>442,583</u>	<u>1,302,045</u>
Subtotal	167,954,835	154,476,554
Less: allowance for doubtful accounts	<u>(2,010,437)</u>	<u>(1,915,250)</u>
	<u>\$ 165,944,398</u>	<u>152,561,304</u>

Please refer to note 6(an) for the industry information.

For the years ended December 31, 2019 and 2018, suspended accrual of interest for all of non-performing loans amounted to \$19,818 and \$39,052, respectively.

(Continued)

Bank of Panhsin

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018, changes in allowance for loans and discounts was as follows:

2019							
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	Total
Beginning balance	\$ 604,232	126,925	214,284	-	945,441	969,809	1,915,250
Changes due to instruments that have been identified at the beginning of the period:							
—Transfer to lifetime ECL	(1,153)	9,922	(8,769)	-	-		-
—Transfer to credit-impaired financial assets	(6,993)	(14,818)	21,811	-	-		-
—Transfer to 12-month ECL	3,100	(2,364)	(736)	-	-		-
—The financial assets that have been derecognized	(349,205)	(14,960)	(44,758)	-	(408,923)		(408,923)
Originated or purchased financial assets	670,751	11,043	16,817	-	698,611		698,611
Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"						(220,155)	(220,155)
Write-off	-	-	(253,787)	-	(253,787)		(253,787)
Recoveries	-	-	308,283	-	308,283		308,283
Foreign exchange and other movement	69,859	(5,573)	(93,128)	-	(28,842)		(28,842)
Ending balance	<u>\$ 990,591</u>	<u>110,175</u>	<u>160,017</u>	<u>-</u>	<u>1,260,783</u>	<u>749,654</u>	<u>2,010,437</u>
2018							
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	Total
Beginning balance	\$ 611,339	196,156	353,035	-	1,160,530	651,386	1,811,916
Changes due to instruments that have been identified at the beginning of the period:							
—Transfer to lifetime ECL	(8,658)	20,406	(11,748)	-	-		-
—Transfer to credit-impaired financial assets	(38,593)	(19,538)	58,131	-	-		-
—Transfer to 12-month ECL	81	(64)	(17)	-	-		-
—The financial assets that have been derecognized	(414,416)	(16,803)	(58,379)	-	(489,598)		(489,598)
Originated or purchased financial assets	438,580	4,188	28,753	-	471,521		471,521
Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"						318,423	318,423
Write-off	-	-	(560,569)	-	(560,569)		(560,569)
Recoveries	-	-	148,737	-	148,737		148,737
Foreign exchange and other movement	15,899	(57,420)	256,341	-	214,820		214,820
Ending balance	<u>\$ 604,232</u>	<u>126,925</u>	<u>214,284</u>	<u>-</u>	<u>945,441</u>	<u>969,809</u>	<u>1,915,250</u>

(i) Other financial assets, net

	December 31, 2019	December 31, 2018
Exchange bills negotiated	\$ -	184
Non-performing loans	15,095	-
Less: allowance for doubtful accounts	(15,095)	-
Total	<u>\$ -</u>	<u>184</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

For the year ended December 31, 2019, changes in allowance for Other financial assets was as follows:

	2019					
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"
Beginning balance	\$ -	-	-	-	-	-
Originated or purchased financial assets	-	-	15,095	-	15,095	-
Ending balance	\$ -	-	15,095	-	15,095	-

(j) Long-term investments under equity method, net

As of December 31, 2019 and 2018, details of long-term investments under the equity method were as follows:

December 31, 2019			
	Percentage of ownership (%)	Investment Cost	Amount
Subsidiaries			
Panhsin Asset Management Co., Ltd.	100.00	\$ 488,000	625,945
Panhsin International Leasing Co., Ltd.	100.00	350,000	380,662
		<u>\$ 838,000</u>	<u>1,006,607</u>

December 31, 2018			
	Percentage of ownership (%)	Investment Cost	Amount
Subsidiaries			
Panhsin Asset Management Co., Ltd.	100.00	\$ 488,000	547,967
Panhsin International Leasing Co., Ltd.	100.00	300,000	324,794
		<u>\$ 788,000</u>	<u>872,761</u>

(k) Property and equipment, net

December 31, 2019	Cost	Accumulated depreciation	Net
Land	\$ 4,742,994	-	4,742,994
Buildings	2,129,854	(354,368)	1,775,486
Machinery and equipment	377,308	(239,878)	137,430
Transportation equipment	128,044	(87,612)	40,432
Other equipment	739,737	(555,085)	184,652
Leasehold improvements	272,768	(227,653)	45,115
Construction in progress	4,497	-	4,497
Total	<u>\$ 8,395,202</u>	<u>(1,464,596)</u>	<u>6,930,606</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018	Cost	Accumulated depreciation	Net
Land	\$ 4,984,650	-	4,984,650
Buildings	2,118,231	(319,076)	1,799,155
Machinery and equipment	325,152	(230,063)	95,089
Transportation equipment	116,040	(81,191)	34,849
Other equipment	726,192	(507,953)	218,239
Leasehold improvements	249,831	(207,324)	42,507
Construction in progress	10,457	-	10,457
Total	\$ 8,530,553	(1,345,607)	7,184,946

Movements of cost were as below:

	January 1, 2019	Additions	Disposals or retirements	Other (note 1)	December 31, 2019
Land	\$ 4,984,650	17,923	-	(259,579)	4,742,994
Buildings	2,118,231	-	-	11,623	2,129,854
Machinery and equipment	325,152	-	(25,861)	78,017	377,308
Transportation equipment	116,040	-	(3,469)	15,473	128,044
Other equipment	726,192	8,011	(4,640)	10,174	739,737
Leasehold improvements	249,831	14,632	-	8,305	272,768
Construction in progress	10,457	2,345	-	(8,305)	4,497
Total	\$ 8,530,553	42,911	(33,970)	(144,292)	8,395,202

	January 1, 2018	Additions	Disposals or retirements	Other (note 2)	December 31, 2018
Land	\$ 3,822,163	1,319,871	-	(157,384)	4,984,650
Buildings	2,410,730	-	-	(292,499)	2,118,231
Machinery and equipment	316,927	-	(13,256)	21,481	325,152
Transportation equipment	108,790	-	(1,418)	8,668	116,040
Other equipment	726,406	4,994	(8,773)	3,565	726,192
Leasehold improvements	242,282	11,089	(3,554)	14	249,831
Construction in progress	115	10,355	-	(13)	10,457
Total	\$ 7,627,413	1,346,309	(27,001)	(416,168)	8,530,553

Note: 1) Reclassification from (to) other assets— prepayments, buildings under investment properties and buildings under investment properties amounting to \$103,664, \$11,623 and \$(259,579), respectively.

2) Reclassification from (to) other assets— prepayments, buildings under investment properties and buildings under investment properties amounting to \$ 33,715, \$(157,384) and \$(292,499) respectively.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Movements of accumulated depreciation were as below:

	January 1, 2019	Additions	Disposals or retirements	Other (note 3)	December 31, 2019
Buildings	\$ 319,076	34,199	-	1,093	354,368
Machinery and equipment	230,063	31,500	(21,685)	-	239,878
Transportation equipment	81,191	9,412	(2,991)	-	87,612
Other equipment	507,953	51,177	(4,045)	-	555,085
Leasehold improvements	207,324	20,329	-	-	227,653
Total	<u>\$ 1,345,607</u>	<u>146,617</u>	<u>(28,721)</u>	<u>1,093</u>	<u>1,464,596</u>

	January 1, 2018	Additions	Disposals or retirements	Other (note 4)	December 31, 2018
Buildings	\$ 308,373	35,823	-	(25,120)	319,076
Machinery and equipment	216,285	25,500	(11,722)	-	230,063
Transportation equipment	74,988	7,396	(1,193)	-	81,191
Other equipment	460,545	55,162	(7,754)	-	507,953
Leasehold improvements	192,612	17,926	(3,214)	-	207,324
Total	<u>\$ 1,252,803</u>	<u>141,807</u>	<u>(23,883)</u>	<u>(25,120)</u>	<u>1,345,607</u>

Note: 3) Reclassification from investment property of \$1,093.

Note: 4) Reclassification to investment property of \$25,120.

As of March 28, 2014, the Bank sold the self-owned building, located at No. 330 Zhongzheng Rd., Banqiao Dist., New Taipei City 220, Taiwan (R.O.C.) with the price of \$950,000. Gain on disposal of the building amounting to \$495,714 was recognized after deducting the related expenses of \$37,615 and carrying value. According to the Banking Bureau's letter dated May 15, 2013 (Ref. No. 10200070270), while banks sale and lease back real estates, the gain on property exchange shall be deferred. The gain deferred by the Bank on property exchange for sale and lease back as of December 31, 2019 and 2018, was \$44,725 and \$64,603, respectively, which was recognized as other liabilities-deferred revenue. The realized gain on property exchange for 2019 and 2018, were both \$19,878, which was recognized as gain on property exchange and other non-interest income-investment property.

(l) Right-of-use assets

December 31, 2019	Cost	Accumulated depreciation	Net
Buildings	476,444	(145,323)	331,121
Transportation equipment	13,460	(5,368)	8,092
Other equipment	15,155	(2,307)	12,848
Total	<u>\$ 505,059</u>	<u>(152,998)</u>	<u>352,061</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Movements of cost were as below:

	January 1, 2019	Additions	Disposals or retirements	December 31, 2019
Buildings	\$ 398,110	93,295	(14,961)	476,444
Transportation equipment	8,497	5,860	(897)	13,460
Other equipment	1,193	13,962	-	15,155
Total	<u>\$ 407,800</u>	<u>113,117</u>	<u>(15,858)</u>	<u>505,059</u>

Movements of accumulated depreciation were as below:

	January 1, 2019	Additions	Disposals or retirements	December 31, 2019
Buildings	\$ -	159,404	(14,081)	145,323
Transportation equipment	-	5,956	(588)	5,368
Other equipment	-	2,307	-	2,307
Total	<u>\$ -</u>	<u>167,667</u>	<u>(14,669)</u>	<u>152,998</u>

(m) Investment property, net

December 31, 2019	Cost	Accumulated depreciation	Net
Land	\$ 1,153,633	-	1,153,633
Buildings	2,067,101	(225,195)	1,841,906
Total	<u>\$ 3,220,734</u>	<u>(225,195)</u>	<u>2,995,539</u>

December 31, 2018	Cost	Accumulated depreciation	Net
Land	\$ 894,054	-	894,054
Buildings	2,078,724	(196,755)	1,881,969
Total	<u>\$ 2,972,778</u>	<u>(196,755)</u>	<u>2,776,023</u>

Movements of cost were as below:

	January 1, 2019	Additions	Disposals or retirements	Reclassification (note 1)	December 31, 2019
Land	\$ 894,054	-	-	259,579	1,153,633
Buildings	2,078,724	-	-	(11,623)	2,067,101
Total	<u>\$ 2,972,778</u>	<u>-</u>	<u>-</u>	<u>247,956</u>	<u>3,220,734</u>

	January 1, 2018	Additions	Disposals or retirements	Reclassification (note 2)	December 31, 2018
Land	\$ 736,670	-	-	157,384	894,054
Buildings	1,786,225	-	-	292,499	2,078,724
Total	<u>\$ 2,522,895</u>	<u>-</u>	<u>-</u>	<u>449,883</u>	<u>2,972,778</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Note: 1) Reclassification from (to) land and buildings under property and equipment amounting to \$259,579 and \$(11,623), respectively.

2) Reclassification from land and buildings under property and equipment amounting to \$157,384 and \$292,499, respectively.

Movements of accumulated depreciation were as follows:

	January 1, 2019	Current increase	Current decrease	Reclassification (note 3)	December 31, 2019
Building	\$ <u>196,755</u>	<u>29,533</u>	<u>-</u>	<u>(1,093)</u>	<u>225,195</u>

	January 1, 2018	Current increase	Current decrease	Reclassification (note 4)	December 31, 2018
Building	\$ <u>143,724</u>	<u>27,911</u>	<u>-</u>	<u>25,120</u>	<u>196,755</u>

Note: 3) Reclassification to buildings under property and equipment amounting to \$1,093.

4) Reclassification from buildings under property and equipment amounting to \$25,120.

According to the evaluation of investment property by external and internal appraisers, the fair value of the investment property held by the Bank as of December 31, 2019 and 2018, was \$6,315,091 and \$6,271,392, respectively. The appraisal approaches including sales comparison approach, income approach, and land development analysis. The fair value hierarchy for input value are level 2 or 3.

The investment properties held by the Bank included commercial real estate leasing to others. Every leasing contract contained originally nonrenewable leasing period. The subsequent leasing periods were negotiated with lessees and there were no contingent rents. Please refer to note 6(an).

As of December 31, 2019, the investment properties owned by the Bank were not under pledge.

(n) Intangible assets, net

	December 31, 2019	December 31, 2018
Goodwill	\$ 2,197,921	2,197,921
Computer software	59,190	65,305
Core deposits	<u>98,683</u>	<u>105,905</u>
Total	<u>\$ 2,355,794</u>	<u>2,369,131</u>

Goodwill of the Bank arose from acquisition of the outstanding assets and liabilities of The Ninth Credit Cooperative of Taipei, The Fifth Credit Cooperative of Kaohsiung and The First Credit Cooperative of Chiayi.

The bank perform impairment test of goodwill based on projected future cash flow with normal operation situation and business cycle.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Movements of intangible assets were as follows:

	January 1, 2019	Additions	Disposals or retirements	Amortization	Other (note 1)	December 31, 2019
Goodwill	\$ 2,197,921	-	-	-	-	2,197,921
Computer software	65,305	-	-	(35,240)	29,125	59,190
Core deposits	105,905	-	-	(7,222)	-	98,683
Total	<u>\$ 2,369,131</u>	<u>-</u>	<u>-</u>	<u>(42,462)</u>	<u>29,125</u>	<u>2,355,794</u>

	January 1, 2018	Additions	Disposals or retirements	Amortization	Other (note 2)	December 31, 2018
Goodwill	\$ 2,197,921	-	-	-	-	2,197,921
Computer software	40,703	-	(19)	(29,070)	53,691	65,305
Core deposits	113,126	-	-	(7,221)	-	105,905
Total	<u>\$ 2,351,750</u>	<u>-</u>	<u>(19)</u>	<u>(36,291)</u>	<u>53,691</u>	<u>2,369,131</u>

Note: 1) Reclassification from other assets—prepayments amounting to \$29,125.

2) Reclassification from other assets—prepayments amounting to \$53,691.

(o) Other assets

	December 31, 2019	December 31, 2018
Prepayments	\$ 175,765	229,770
Refundable deposits	462,959	517,317
Foreclosed collateral	265,299	181,988
Total	<u>\$ 904,023</u>	<u>929,075</u>

Movements of the foreclosed collateral were as follows:

	January 1, 2019	Additions	Disposals or retirements	Reclassification	December 31, 2019
Cost	\$ 191,649	110,295	(12,041)	-	289,903
Less: Accumulated impairment	9,661	14,943	-	-	24,604
Total	<u>\$ 181,988</u>	<u>95,352</u>	<u>(12,041)</u>	<u>-</u>	<u>265,299</u>

	January 1, 2018	Additions	Disposals or retirements	Reclassification	December 31, 2018
Cost	\$ 972,803	-	(781,154)	-	191,649
Less: Accumulated impairment	9,661	-	-	-	9,661
Total	<u>\$ 963,142</u>	<u>-</u>	<u>(781,154)</u>	<u>-</u>	<u>181,988</u>

In compliance with the due date of the collateral disposal announced by the Regulatory and Article 76-2 of The Banking Act, the Bank entered into an agreement with a counterparty to sell its foreclosed collaterals, (the 75 pieces of land acquired from Xin Rui Du, located at Tian Fu Section, Hu Nei Dist., Kaohsiung City) on August 7, 2018, at the price of \$872,500, in which the deed was transferred in November 2018. The net gain with the carrying amount of \$214,630, recognized as gain on sale of foreclosed collaterals, was calculated by deducting the related expenses of \$24,876.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(p) Deposits from Central Bank and other banks

	December 31, 2019	December 31, 2018
Deposits from banks	\$ 517,221	510,390
Deposits transferred from the Post Office	699,640	699,640
Call loans from bank	2,187,615	440,210
Total	<u><u>\$ 3,404,476</u></u>	<u><u>1,650,240</u></u>

(q) Securities sold under repurchase agreements

December 31, 2019				
Item	Par Value	Selling price (note)	Designated repurchase amount	Designated repurchase date
Financial assets at fair value through other comprehensive income	\$ 2,769,752	2,601,329	2,615,005	Before March 26, 2020
Financial assets at amortized cost	602,120	564,470	567,786	Before March 12, 2020
Total	<u><u>\$ 3,371,872</u></u>	<u><u>3,165,799</u></u>	<u><u>3,182,791</u></u>	
December 31, 2018				
Item	Par Value	Selling price (note)	Designated repurchase amount	Designated repurchase date
Financial assets at fair value through other comprehensive income	\$ <u><u>3,257,698</u></u>	<u><u>2,913,216</u></u>	<u><u>2,932,848</u></u>	Before March 26, 2019

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(r) Payable

	December 31, 2019	December 31, 2018
Accounts payable	\$ 39,010	40,500
Accrued expense	443,682	291,434
Accrued Tax	40,592	36,950
Interest payable	309,332	311,396
Acceptance payable	274,198	169,403
Collection payable	76,113	55,909
Spot exchange payable	800,329	896,104
Other payables	<u>418,959</u>	<u>1,402,827</u>
Total	<u><u>\$ 2,402,215</u></u>	<u><u>3,204,523</u></u>

(s) Deposits and remittances

	December 31, 2019	December 31, 2018
Checking account	\$ 1,899,645	<u>2,092,277</u>
Demand deposits		
Demand deposits	37,483,941	31,677,522
Demand savings deposits	52,311,918	50,306,139
Staff deposits	<u>1,178,174</u>	<u>1,164,364</u>
Subtotal	<u>90,974,033</u>	<u>83,148,025</u>
Time deposits		
Time deposits	30,326,127	33,199,065
Negotiable certificates of deposit	<u>394,100</u>	<u>427,700</u>
Subtotal	<u>30,720,227</u>	<u>33,626,765</u>
Time savings deposits		
Installment savings deposits	126,091	120,857
Non-interest-drawing time savings deposits	14,148,914	13,484,264
Interest-drawing savings deposits	<u>68,977,558</u>	<u>69,508,006</u>
Subtotal	<u>83,252,563</u>	<u>83,113,127</u>
Foreign currency time deposits	<u>11,883,013</u>	<u>12,846,001</u>
Remittances	<u>25,169</u>	<u>44,688</u>
Total	<u><u>\$ 218,754,650</u></u>	<u><u>214,870,883</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(t) Financial bonds payable

Name of bond	During	Interest rate	December 31, 2019	December 31, 2018
The first series of the subordinate financial debenture in 2014	2014.06.06~ 2020.06.06	Fixed 3.00% or floating rate (note 1)	\$ 3,000,000	3,000,000
The first series of the non-cumulative perpetual subordinate financial debenture in 2016	2016.08.31 (note 2)	Fixed 4.75%	1,216,000	1,216,000
The second series of the non-cumulative perpetual subordinate financial debenture in 2016	2016.09.30 (note 2)	Fixed 4.75%	410,000	410,000
The first series of the subordinate financial debenture in 2017	2017.03.22~ 2024.03.22	Fixed 2.50%	397,000	397,000
The second series of the subordinate financial debenture in 2017	2017.03.31~ 2024.03.31	Fixed 2.50%	305,000	305,000
The third series of the non-cumulative perpetual subordinate financial debenture in 2017	2017.04.28 (note 2)	Fixed 4.75%	150,000	150,000
The fourth series of the non-cumulative perpetual subordinate financial debenture in 2017	2017.07.21 (note 2)	Fixed 4.75%	133,000	133,000
The fifth series of the subordinate financial debenture in 2017	2017.11.15~ 2024.11.15	Fixed 2.50%	700,000	700,000
The first series of the subordinate financial debenture in 2019	2019.06.26~ 2026.06.26	Fixed 2.25%	660,000	-
			<u>\$ 6,971,000</u>	<u>6,311,000</u>

Note 1: Floating interest rate is 1.50% plus Chunghwa Post Co., Ltd.'s stated one-year time deposit rate. The interest rate is reset two working days before the effective date every year.

Note 2: No expiration date, five years after the issuance, the Bank could obtain the full amount of interest in advance according to the denomination.

(u) Provision

	December 31, 2019	December 31, 2018
Employee benefit obligation—pension	\$ 131,456	104,074
Employee benefit obligation—retired employee preferential interest rate deposits	33,333	31,736
Provision for guarantee liabilities	35,828	30,030
Provision for loan commitments	31,773	28,354
Other provisions	5,465	6,569
Provision for decommissioning	<u>8,770</u>	<u>5,420</u>
Total	<u>\$ 246,625</u>	<u>206,183</u>

(Continued)

Bank of Panhsin

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018, changes in provision was as follows:

	2019						Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	
Beginning balance	\$ 28,453	21	-	-	28,474	36,479	64,953
Changes due to instruments that have been identified at the beginning of the period:							
—Transfer to lifetime ECL	(91)	91	-	-	-	-	-
—Transfer to credit-impaired financial assets	(15)	-	15	-	-	-	-
—The financial assets that have been derecognized	(6,401)	(21)	-	-	(6,422)	-	(6,422)
New financial assets originated purchased	12,037	50	-	-	12,087	-	12,087
Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	-	-	-	-	-	(15,767)	(15,767)
Recovery of bad debts	13,005	282	4,928	-	18,215	-	18,215
Ending balance	\$ 46,988	423	4,943	-	52,354	20,712	73,066

	2018						Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	
Beginning balance	\$ 25,593	36	-	-	25,629	22,610	48,239
Changes due to instruments that have been identified at the beginning of the period:							
—The financial assets that have been derecognized	(14,507)	(36)	-	-	(14,543)	-	(14,543)
New financial assets originated purchased	19,968	21	-	-	19,989	-	19,989
Additional provision of impairment in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal With Non-performing/ Non-accrual Loans"	-	-	-	-	-	13,869	13,869
Foreign exchange and other movement	(2,601)	-	-	-	(2,601)	-	(2,601)
Ending balance	\$ 28,453	21	-	-	28,474	36,479	64,953

(v) Lease liabilities

Amount of lease liabilities was as follows:

	December 31, 2019
Lease liabilities	\$ 356,686

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

The amounts recognized in profit or loss was as follows:

	2019
Interest on lease liabilities	\$ 9,432
Variable lease payments not included in the measurement of lease liabilities	\$ 2,834
Expenses relating to short-term leases	\$ 390
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ 4,924

(Continued)

Bank of Panhsin
Notes to the Financial Statements

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

	2019
Total cash outflow for leases	\$ <u><u>182,575</u></u>

(i) Buildings

As of December 31, 2019, the Bank leases land and buildings for its branches and parking spaces. The leases typically run for a period of 3 to 5 years.

(ii) Others

The Bank also leases transportation equipment and other equipment with contract terms of 3 to 5 years and 5 years, respectively. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognize right-of-use assets and lease liabilities for these leases.

(w) Other liabilities

	December 31, 2019	December 31, 2018
Unearned revenue	\$ 22,776	15,235
Advance interest receipts	459	336
Other advance receipts	4,501	10,932
Guarantee deposits received	63,619	57,480
Deferred revenue	44,725	64,603
Temporary receipts and suspense accounts	<u>22,570</u>	<u>20,949</u>
Total	<u>\$ 158,650</u>	<u>169,535</u>

(x) Employee benefits

(i) Defined benefits plan-pension

The present value of defined benefit obligation and the fair value adjustments of the plan assets for the Bank were as follows:

	December 31, 2019	December 31, 2018
Present value of the defined benefit	\$ 649,835	630,459
Fair value of plan assets obligations	<u>(518,379)</u>	<u>(526,385)</u>
	131,456	104,074
Effect of Asset Ceiling	<u>-</u>	<u>-</u>
Net defined benefit liability (provision-employee benefit obligation)	<u>\$ 131,456</u>	<u>104,074</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

1) Composition of plan assets

The Bank maintains funds for its retirement plan covering all regular employees and recognizing the pension expense based on the actuarial report.

In accordance with the retirement plan, payments of pension benefits are calculated based on the employees' average monthly salary for the last six months prior to their approved retirement and base point (b.p.) entitlement. The b.p. earned by each employee is 2 b.p. for one year of service, and 1 b.p. for the 15th year and thereafter where the maximum b.p. is 45 b.p. The b.p. for employees who rendered services for less than one year and over half year will be 0.5 b.p. and 1 b.p., respectively.

Under the Labor Standards Act, the Bank makes monthly contributions of no less than 2% of the gross salary to the employees' pension fund, which is deposited into a designated depository account with Bank of Taiwan. As well, the Bank contributes pension fund at the rate of 3.5% (previously at 4.7% until February 2001) of the monthly payroll to the employees' pension fund administration committee, which is being deposited in the committee's name in the Bank's Operating Department for interest bearing. This pension fund is not reflected in the financial statements.

2) Movements in present value of the defined benefit obligations

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

	<u>2019</u>	<u>2018</u>
Defined benefit obligation at January 1	\$ 630,459	625,826
Current service costs and interest	15,789	16,815
Remeasurements of a net defined benefit (liability) assets		
— Actuarial (losses) gains arising from experience adjustments	18,189	10,799
— Actuarial (losses) gains arising from changes in demographic assumptions	4,119	101
— Actuarial (losses) gains arising from changes in financial assumptions	20,595	501
Benefits paid by the plan	<u>(39,316)</u>	<u>(23,583)</u>
Defined benefit obligation at December 31	<u>\$ 649,835</u>	<u>630,459</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

3) Movements of the defined benefit plan assets

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

	2019	2018
Fair value of plan assets at January 1	\$ 526,385	520,713
Current interest	5,985	6,581
Remeasurements of the net defined benefit (liabilities) assets	14,471	11,485
Return on plan assets (excluding current interest)	10,854	11,189
Benefits paid by the plan	(39,316)	(23,583)
Fair value of plan assets at December 31	<u><u>\$ 518,379</u></u>	<u><u>526,385</u></u>

4) Movements of the effect of the asset ceiling

There were no movements in the effect of the asset ceiling for the Bank in 2019 and 2018.

5) Expenses recognized in profit or loss

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

	2019	2018
Current service costs	\$ 8,696	8,992
Net interests on net defined benefit liabilities	1,108	1,242
	<u><u>\$ 9,804</u></u>	<u><u>10,234</u></u>

6) Net remeasurement of the defined benefits liability recognized in other comprehensive income

The Bank's net remeasurement of the defined benefits liability recognized in other comprehensive income as 2019 and 2018 were as follows:

	2019	2018
Cumulative amounts at January 1	\$ 6,057	6,141
Recognized during the period	28,432	(84)
Cumulative amounts at December 31	<u><u>\$ 34,489</u></u>	<u><u>6,057</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

7) Actuarial assumptions

The following are the Bank's principal actuarial assumptions:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Managers</u>	<u>Regular employees</u>	<u>Managers</u>	<u>Regular employees</u>
Discount rate	0.80 %	0.80 %	1.13 %	1.13 %
Future salary increase	2.00 %	2.00 %	2.00 %	2.00 %

The Bank expected the contributions of \$520,143 to be paid to its benefit plans within a year after the reporting date in 2019.

As of December 31, 2019, the weighted average durations for managers and regular employees based on the defined benefit plan were 10 and 13 years, respectively.

8) Sensitivity analysis for actuarial assumption

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

As of December 31, 2019 and 2018, the effect of changes in actuarial assumption on the present value of the defined benefit obligation was as follows:

	<u>The effect of defined benefit obligation</u>	
	<u>Increase%</u>	<u>Decrease%</u>
At December 31, 2019		
Discount rate (changes 0.25%)	(2.47)%	2.57 %
Future salary increase (changes 0.25%)	2.47 %	(2.39)%
At December 31, 2018		
Discount rate (changes 0.25%)	(2.47)%	2.56 %
Future salary increase (changes 0.25%)	2.47 %	(2.40)%

The above sensitivity analysis is analyzed based on the effect of changes in a single assumption under the condition that other assumptions remain constant. In practice, many changes in assumptions may be correlative. The method used for sensitivity analysis and the calculation of the net pension liability are the same.

The method used for measurement and the assumption used for sensitivity analysis are the same with those of the previous years.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ii) Defined benefit plans—retired employee preferential interest rate deposits

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

	December 31, 2019	December 31, 2018
Present value of the defined benefit	\$ 33,333	31,736
Fair value of plan asset obligations	-	-
	33,333	31,736
Effect of Asset Ceiling	-	-
Net defined benefit liabilities (provisions-employee benefit obligations)	<u>\$ 33,333</u>	<u>31,736</u>

1) Expenses recognized in profit or loss

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

	2019	2018
Current service costs (as Costs recognized for the preferential interest rate deposit plan)	<u>\$ 1,597</u>	<u>582</u>

2) Actuarial assumptions

Actuarial assumptions used for the preferential interest rate deposit plan of the Bank were as follows:

	2019	2018
Discount rates	4.00 %	4.00 %
Returns on fund deposits	2.00 %	2.00 %
Withdrawal rates	1.00 %	1.00 %
Possibility of changes in the preferential deposit plan	50.00 %	50.00 %
Preferential interests	4.16 %	4.16 %

(iii) Defined contribution plans

The Bank 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 Bank allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The Bank's pension costs under the defined contribution method were \$49,532 and \$48,679 for the years ended December 31, 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(y) Income tax

(i) The income tax expenses for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Income tax expense	\$ 48,410	164
Deferred income tax expense	69,580	45,415
Income tax expense	<u><u>\$ 117,990</u></u>	<u><u>45,579</u></u>

Reconciliation of income tax and profit before tax for the years ended December 31, 2019 and 2018 was follows:

	2019	2018
Profit before tax	<u><u>\$ 1,009,439</u></u>	<u><u>437,045</u></u>
Income tax at statutory rate	\$ 201,888	87,409
	-	(93,947)
Income of OBU exempt from tax	(61,765)	(33,339)
Investment income under the equity method	(23,712)	(8,837)
Dealing gain from securities trading, net	(10,859)	23,409
Dividend income	(12,154)	(10,241)
Gain on sale of land, net	-	(52,059)
Adjustment and expiration of prior year's loss carryforwards	117,615	986
Adjustment of prior year's tax	11,154	(10,420)
Basic income tax	36,999	5,898
Unrecognized deferred tax assets for tax loss carryforward	(133,095)	146,850
Other	(8,081)	(10,130)
Income tax expense	<u><u>\$ 117,990</u></u>	<u><u>45,579</u></u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

Unrecognized deferred tax assets were as follows:

	December 31, 2019	December 31, 2018
Tax loss	<u><u>\$ 1,402,234</u></u>	<u><u>2,067,710</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

The ROC Income Tax Act states that net losses can be carried forward for ten consecutive years to reduce taxable income. However, the losses were not recognized as deferred tax assets since the Bank has little possibility of utilizing the loss carry forward in the future.

As of December 31, 2019, the amounts, of unutilized losses and the years of expiry were as follows:

Year of net loss	Recognized unutilized losses	Unrecognized unutilized losses	Amount	Expiry year
2010	\$ 218,144	1,402,234	1,620,378	2020
2011	252,418	-	252,418	2021
2012	71,463	-	71,463	2022
2017	458,452	-	458,452	2027
	\$ 1,000,477	1,402,234	2,402,711	

Tax losses were not recognized as deferred tax assets because the management determined that profitability has yet to stabilize and may not generate sufficient taxable gains in the future. Consequently, based on current estimates, tax loss of \$1,402,234 was not recognized as deferred tax asset. However, once operating income continues to grow in the upcoming year, it is expected that the unrecognized tax loss mentioned above can be recognized.

2) **Recognized deferred tax assets and liabilities**

The movements of deferred tax assets and liabilities for the years ended December 31, 2019 and 2018, were as follows:

Deferred Tax Liabilities:

	Operating leases	Land incremental tax	Total
January 1, 2018	\$ 3,007	105,285	108,292
Recognized in profit or loss	531	-	531
December 31, 2018 (As of December 31 and January 1, 2019)	\$ 3,538	105,285	108,823

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Deferred Tax Assets:

	Defined benefit plan	Allowance for bad debts in excess of limit	Tax loss	Others	Total
January 1, 2019	\$ 41,337	166,021	270,036	13,097	490,491
Recognized in profit or loss	(210)	-	(69,940)	570	(69,580)
December 31, 2019	<u>\$ 41,127</u>	<u>166,021</u>	<u>200,096</u>	<u>13,667</u>	<u>420,911</u>
January 1, 2018	\$ 35,299	141,118	347,835	11,123	535,375
Recognized in profit or loss	6,038	24,903	(77,799)	1,974	(44,884)
December 31, 2018	<u>\$ 41,337</u>	<u>166,021</u>	<u>270,036</u>	<u>13,097</u>	<u>490,491</u>

(iii) Examined status

The Banks' tax returns were examined by the tax authorities for all years through 2016.

(z) Equity

(i) Capital stock and capital surplus

As of December 31, 2019 and 2018 the Bank's authorized capital and issued capital were \$15,000,000, and paid-in capital for common stock was \$14,446,543 and \$14,205,771, respectively.

Following the resolution of shareholders' meeting held on June 18, 2019, the Bank decided a capital increase of 24,077 thousand common stocks to be issued at NT\$10 per share from the retained earnings amounting to \$240,772, with September 3, 2019 as its issuance date for capital increase. The bank had completed the registration.

Following the resolution of shareholders' meeting held on June 20, 2018, the Bank decided a capital increase of 18,992 thousand common stocks to be issued at NT\$10 per share from the retained earnings amounting to \$189,922, with September 3, 2018 as its issuance date for capital increase. The bank had completed the registration.

A resolution was approved during the board meeting held on August 15, 2018 for the issuance of 45,000 thousand common stocks, at a par value of NT\$10 per share, amounting to \$450,000, with the issuance date set on December 27, 2018. The related registration procedures have been completed.

Pursuant to the Company Act, realized capital surplus should be used initially to cover the deficit (or a loss), and the balance, if any, can be transferred to capital or distributed as case dividend. Also, realized capital surplus includes premium income derived from the issuance of new shares and endowments received by the Bank. According to the Regulation Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital surplus used to increase capital shall not exceed 10% of the total paid-in capital.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ii) Changes in the Bank's other equity interest were as below:

	Foreign currency translation difference for foreign operations	Gains (losses) on financial assets measured at fair value through other comprehensive income	Total
January 1, 2019	\$ 7,566	253,823	261,389
Unrealized gains (losses) on financial assets at fair value through other comprehensive income	-	238,573	238,573
Reclassified accumulated profit (loss) to profit or loss on disposal of investments in debt instruments measured at fair value through other comprehensive income	-	(76,980)	(76,980)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	(44,633)	(44,633)
Foreign currency translation differences for foreign operations	(7,981)	-	(7,981)
December 31, 2019	<u>\$ (415)</u>	<u>370,783</u>	<u>370,368</u>

	Foreign currency translation difference for foreign operations	Gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total
January 1, 2019	\$ 4,656	-	(56,243)	(51,587)
Effects of retrospective application of new standards	-	87,526	56,243	143,769
Equity at beginning of period after adjustments	<u>4,656</u>	<u>87,526</u>	<u>-</u>	<u>92,182</u>
Unrealized gains (losses) on financial assets at fair value through other comprehensive income	-	194,157	-	194,157
Reclassified accumulated profit (loss) to profit or loss on disposal of investments in debt instruments measured at fair value through other comprehensive income	-	(7,120)	-	(7,120)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	(20,740)	-	(20,740)
Foreign currency translation differences for foreign operations	2,910	-	-	2,910
December 31, 2019	<u>\$ 7,566</u>	<u>253,823</u>	<u>-</u>	<u>261,389</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(aa) Restrictions on legal reserve and appropriation of retained earnings

The ROC Company Act stipulates that when a company incurs no loss, it may, pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or distributing cash. Only the portion of legal reserve which exceeds 25% of the issued share capital may be distributed. However, according to the Bank Act of the Republic of China, unless and until the accumulated legal reserve equals the bank's paid-in capital, the maximum cash profit which may be distributed shall not exceed 15% of the bank's paid-in capital.

According to the Bank's Articles of Incorporation, any annual earnings of the Bank shall first be used to pay income tax and offset any deficits, after which, 30% of the remaining earnings, as well as the special reserve, shall be provided as legal reserve. Afterwards, the board of directors may propose during shareholders' meeting to distribute the remaining, along with previous years' accumulated undistributed surplus earnings, as dividends among the shareholders.

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. The amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. On June 18, 2019 and June 20, 2018, the shareholders' meeting resolved to make the reversal of special reserve amounting to \$51,586 and \$27,647, respectively.

In accordance with Ruling No. 10510001510 issued by the FSC on May 25, 2016, a special reserve accounted for 0.5% to 1.0% of the Bank's annual earnings should be made when making the appropriations of earnings from 2016 to 2018 to cope with the staff transformation due to financial technology development. The Bank may reverse the special reserve at the same amount with the actual spending on transitioning or settling of its employees beginning 2017. On June 18, 2019 and June 20, 2018, the shareholders' meeting resolved to make the appropriation of special reserve amounting to \$1,732 and \$1,080, respectively.

On June 18, 2019, the shareholders' meeting resolved to distribute previous years' retain earnings as a stock dividend of \$0.17 (in New Taiwan dollar) per share, amounting to \$240,772.

On June 20, 2018, the shareholders' meeting resolved to distribute previous years' retain earnings as a cash dividend of \$0.14 (in New Taiwan dollar) per share, amounting to \$189,922.

The related information on earnings distribution approved at the shareholders' meeting and board meeting is available on the Market Observation Post System Website.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ab) Earnings per share

The basic earnings per share of the Bank for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Basic earnings per share		
Net income attributable to ordinary shareholders of the Bank	\$ <u>891,449</u>	<u>391,466</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>1,444,654</u>	<u>1,400,271</u>
Basic earnings per share (in New Taiwan dollars)	\$ <u>0.62</u>	<u>0.28</u>
Diluted earnings per share		
Net income for calculating diluted earnings per share	\$ <u>891,449</u>	<u>391,466</u>
Weighted-average number of thousand ordinary shares outstanding	1,444,654	1,400,271
Influence of potentially dilutives shares		
Conversion of convertible compensation	<u>1,990</u>	<u>862</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>1,446,644</u>	<u>1,401,133</u>
Diluted earnings per share (in New Taiwan dollars)	\$ <u>0.62</u>	<u>0.28</u>

(ac) Net interest income

	<u>2019</u>	<u>2018</u>
Interest income		
Loans and discounts	\$ 3,854,982	3,589,513
Deposit reserves from Central Bank	27,353	27,616
Due from Central Bank	-	7,583
Due from banks and call loans to banks	35,283	74,364
Investment in securities	414,822	378,314
Others	<u>72,405</u>	<u>44,765</u>
Subtotal	<u>4,404,845</u>	<u>4,122,155</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

	<u>2019</u>	<u>2018</u>
Interest expense		
Deposits from customers	\$ 1,614,971	1,524,434
Due to Central Bank and other banks	49,132	28,769
Securities sold under repurchase agreements	45,185	53,740
Financial debenture	219,566	230,808
Lease liabilities	9,432	-
Others	274	244
Subtotal	<u>1,938,560</u>	<u>1,837,995</u>
	<u><u>\$ 2,466,285</u></u>	<u><u>2,284,160</u></u>

The interest above did not include interest from financial assets or liabilities at fair value through profit or loss.

(ad) Service fees, net

	<u>2019</u>	<u>2018</u>
Service fee income		
Insurance agent	\$ 394,248	402,456
Agency	7,172	7,027
Loans	226,236	150,104
Trusts	231,205	164,470
Foreign exchange	32,938	26,344
Interbank	22,281	21,899
Guarantee	35,055	33,765
Others	5,184	5,083
Service fee income total	<u>954,319</u>	<u>811,148</u>
Service fee expense		
Remittance	3,857	3,110
Custodian	3,475	2,619
Agency	2,759	2,318
Others	9,707	10,527
Trusts	1,680	2,252
Interbank	15,693	15,237
Service fee expense total	<u>37,171</u>	<u>36,063</u>
	<u><u>\$ 917,148</u></u>	<u><u>775,085</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ae) Gain (loss) on financial assets or liabilities measured at fair value through profit or loss

	<u>2019</u>	<u>2018</u>
Gain (loss) on disposal		
Government bonds	\$ 10,417	988
Convertible Bond	(815)	-
Convertible Bond Asset Swap	-	1,230
Beneficiary certificates	(464)	(4,526)
Equity securities	1,467	(104,892)
Derivatives	<u>10,408</u>	<u>7,051</u>
Subtotal	<u>21,013</u>	<u>(100,149)</u>
Revaluation gains (losses)		
Government bonds	4,162	(80)
Commercial paper	(4)	174
Beneficiary certificates	106	(8,038)
Equity securities	2,585	58,443
Derivatives	39,149	(36,376)
Convertible Bond Asset Swap	<u>-</u>	<u>(460)</u>
Subtotal	<u>45,998</u>	<u>13,663</u>
Dividend income and interest income	<u>15,889</u>	<u>17,004</u>
Total	<u><u>\$ 82,900</u></u>	<u><u>(69,482)</u></u>

(af) Realized gain (loss) on financial assets at fair value through other comprehensive income

	<u>2019</u>	<u>2018</u>
Gains on disposal of investments in debt instruments	\$ 76,980	7,121
Dividend income	<u>56,932</u>	<u>49,356</u>
	<u><u>\$ 133,912</u></u>	<u><u>56,477</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ag) Reversal of (provision for) impairment loss on assets, net

	2019	2018
Reversal of impairment loss on investments in debt instruments at fair value through other comprehensive income	\$ 166	2,898
Loss on investments in debt instruments measured at amortized cost	(433)	-
Impairment loss of foreclosed collateral	(14,943)	-
	<u>\$ (15,210)</u>	<u>2,898</u>

(ah) Other non-interest income, net

	2019	2018
Loss on disposal of assets	(5,249)	(3,137)
Investment property depreciation	(29,533)	(27,911)
Others	28,797	39,827
Total	<u>\$ (5,985)</u>	<u>8,779</u>

(ai) Bad debt expense and reserve for guarantees

	2019	2018
Loans and discounts	\$ 40,691	515,166
Guarantee liabilities	5,798	(4,826)
Loan commitments	3,419	14,971
Others	(1,104)	6,569
Receivables	1,342	3,751
Other financial assets	15,095	-
Total	<u>\$ 65,241</u>	<u>535,631</u>

(aj) Employee benefits expense

	2019	2018
Salary	\$ 1,381,765	1,254,484
Labor and health insurance	102,454	99,893
Pension	59,336	59,495
Others	54,467	55,425
Total	<u>\$ 1,598,022</u>	<u>1,469,297</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(ak) Remuneration to employees and directors

In compliance with the Bank's Articles of Incorporation, annual earnings shall first be offset against any deficit, and then 2% will be distributed as employee remuneration and a maximum of 1% will be allocated as directors' remuneration.

For the years ended December 31, 2019 and 2018, the Bank accrued and recognized the remuneration to its employees and directors amounting to \$20,813 and \$10,407, respectively. The remuneration to employee and directors is based on a percentage of net income before income tax for the given time of the Bank excluding remuneration to employees and directors and cumulative losses, then multiplying the separate parameter in compliance with the Bank's articles. The estimated percentage rates of the remuneration to employees and directors are 2% and 1%, respectively. The remuneration to employee and directors should be reported as operating expenses in the current year. If there are any changes after the reporting date in the following year, the changes would be treated as accounting estimates and recognized in profit or loss. For the year ended December 31, 2018, the Bank accrued and recognized the remuneration to its employees and directors amounting to \$8,083 and \$4,041, respectively. A resolution on the remuneration to the Bank's employees and directors in 2018 was approved during the Board meeting held on March 20, 2019, in which there was no difference between the estimated amount and the actual amount distributed. The information is available at the Market Observation Post System website.

(al) Depreciation and amortization expense

	2019	2018
Buildings	\$ 34,199	35,823
Machinery and equipment	31,500	25,500
Transportation equipment	9,412	7,396
Other equipment	51,177	55,162
Leasehold improvement	20,329	17,926
Right-of-use assets	<u>167,667</u>	<u>-</u>
Depreciation subtotal	<u>314,284</u>	<u>141,807</u>
Computer software	35,240	29,070
Core deposit	<u>7,222</u>	<u>7,221</u>
Amortization subtotal	<u>42,462</u>	<u>36,291</u>
Total	<u><u>\$ 356,746</u></u>	<u><u>178,098</u></u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(am) Other general and administrative expense

	2019	2018
Rental and facility	\$ 8,148	177,866
Administrative	312,235	328,170
Marketing	21,424	21,868
Value-added tax	297,393	285,766
Other expense	146,451	124,595
Total	<u>\$ 785,651</u>	<u>938,265</u>

(an) Financial instruments

(i) Methods and assumptions applied to estimate the fair value of financial instruments are summarized as follows:

- 1) The bank measured fair value of short term financial instruments based on book value due to insignificant duration, it believes that book value provides a reasonable basis. The method adopted for the following subjects: Cash and cash equivalents, Due from Central Bank and call loans to banks, Securities purchased under resell agreements, Receivables, Other financial assets, Due to Central Bank and banks, Securities sold under repurchase agreements, Payables, and Deposits and remittances.
- 2) For financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income, the quoted market price is regarded as its fair value. If there is no quoted price for the financial asset, its fair value is estimated on the basis of a valuation technique that refers to quoted prices provided by financial institutions. Estimates and assumptions for a valuation technique used by the Bank are consistent with the information adopted by market participants when pricing the financial instruments and such information is available to the Bank.
- 3) Loans and discounts, and deposits are interest-bearing assets or liabilities; therefore, the book value of both financial assets and liabilities is equivalent to their fair value. The net book value of non-performing accounts, after deducting provision for bad debts, is adopted as their fair value.
- 4) Please refer to note 6(m) for further information of valuation of investment property.
- 5) For valuation of financial debentures, the fair value is the present value of future cash flow. The discount rate is based on the interest rate for loans with similar terms (e.g. maturity date).
- 6) For valuation of derivative instruments with no quoted market prices, the fair value is determined on the basis of the discounted cash flow method.
- 7) The Bank estimated the fair value of each forward contract on the basis of exchange rates quoted by Reuters. The fair value of interest rate swap contracts and cross-currency swap contracts is estimated on the basis of market quotations by Reuters.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

- 8) The Bank would calculate its Credit Valuation Adjustment (CVA) by assessing the Probability of Default (PD) and Loss Given Default (LGD) of the counterparty before multiplying the Exposure At Default (EAD) of the counterparty. On the contrary, DVA is computed by applying the PD of the Bank and considering the LGD of the Bank before being multiplied by the amount of the EAD of the Bank.

The Bank adopts IFRS 9 or take any observable data into account to evaluate the probability of impairment and loss rate of allowance for doubtful accounts as the estimates of PD and LGD. In addition, mark to market assessment of a derivative instrument from Over the Counter (OTC) is applied as EAD. For those accounts which have significant increase in credit risk, their CVA will be assessed individually by taking into account their changes of exposures, conditions of collaterals and their probabilities of recovery.

- (ii) Information on fair value hierarchy of financial instruments and movement of financial assets measured at fair value classified in Level 3

- 1) The levels of the fair value hierarchy are described below:

- a) Level 1

Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: (1) the products traded in the market are homogeneous, (2) willing parties are available anytime in the market, and (3) price information is available for the public.

- b) Level 2

Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than the quoted price in an active market, including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The examples of an observable price are as follows:

- i) The quoted price for an identical financial instrument in an active market means the fair value from the market transaction prices for an identical financial instrument. An identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of a financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the occurring market transaction prices for an identical financial instrument (the quoted prices do not represent the fair value at the measurement date), the difference in transaction terms for financial instruments, transaction prices involving related parties, and the correlation between the observable transaction prices of identical financial instruments and the market prices of held financial instruments.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

- ii) The quoted market price of the same or identical financial instruments in an inactive market.
- iii) The fair value is estimated on the basis of the results of a valuation technique, and the market inputs used (i.e., interest rate, yield curve, and fluctuation rate) are based on obtainable data from the market (an observable input means an input can be derived from market data and can reflect the expectation of market participants when the inputs are used in evaluating the prices of financial instruments).
- iv) A majority of inputs are derived from observable market data, or the input correlation can be tested based on observable market data.

c) Level 3

Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from market but is based on the assumption in making appropriate estimates and adjustments. If it is not possible to develop a valuation model, quoted price from the counterparty is used as fair value. Certain derivative instruments, and debts investment without an active market of the Bank and its subsidiary's investment, belong to such category.

2) Fair value hierarchy of financial instruments

Fair value measurement for a financial instrument	December 31, 2019				
	Book value	Level 1	Level 2	Level 3	Total
<u>Instruments at fair value</u>					
<u>Instruments at fair value on a recurring basis</u>					
<u>Non-Derivative Financial Instruments</u>					
Assets					
Financial assets at fair value through profit or loss					
Financial assets mandatorily at fair value through profit or loss					
Investment in stocks	\$ 8,805	8,805	-	-	8,805
Investment in bonds	805,633	505,114	300,519	-	805,633
Investment in beneficiary certificates	68,060	68,060	-	-	68,060
Financial assets at fair value through other comprehensive income					
Investment in stocks	925,137	595,182	-	329,955	925,137
Investment in bonds	15,825,070	10,201,900	5,623,170	-	15,825,070

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2019					
Fair value measurement for a financial instrument	Book value	Level 1	Level 2	Level 3	Total
<u>Instruments at fair value</u>					
<u>Instruments at fair value on a recurring basis</u>					
<u>Derivative Financial Instruments</u>					
Assets					
Financial assets at fair value through profit or loss	\$ 23,875	-	23,875	-	23,875
Liabilities					
Financial liabilities at fair value through profit or loss	4,303	-	4,303	-	4,303
December 31, 2018					
Fair value measurement for a financial instrument	Book value	Level 1	Level 2	Level 3	Total
<u>Instruments measured at fair value</u>					
<u>Non-Derivative Financial Instruments</u>					
Assets					
Financial assets at fair value through profit or loss					
Financial assets held for trading					
Investment in stocks	\$ 34,817	34,817	-	-	34,817
Investment in bonds	741,788	489,723	252,065	-	741,788
Investment in bills	299,906	-	299,906	-	299,906
Investment in beneficiary certificates	15,443	15,443	-	-	15,443
Financial assets at fair value through other comprehensive income					
Investment in stocks	726,466	400,407	-	326,059	726,466
Investment bonds	1,331,902	9,470,974	3,860,928	-	13,331,902
<u>Derivative Financial Instruments</u>					
Assets					
Financial assets at fair value through profit or loss	\$ 8,640	-	8,640	-	8,640
Liabilities					
Financial liabilities at fair value through profit or loss	28,226	-	28,226	-	28,226

(Continued)

Bank of Panhsin
Notes to the Financial Statements

3) Movement of financial assets at fair value classified in Level 3

2019									
Items	Beginning balance	The amount recognized in net income	The amount recognized in other comprehensive income	Increase		Transfer from financial liabilities in Level 3 to financial assets in Level 3	Decrease		Ending balance
				Purchase or issue	Transfer into Level 3		Sale, disposal, or settlement	Transfer out of Level 3	
Financial assets at fair value through other comprehensive income	\$ 326,059	-	3,896	-	-	-	-	-	329,955

2018									
Items	Beginning balance	The amount recognized in net income	The amount recognized in other comprehensive income	Increase		Transfer from financial liabilities in Level 3 to financial assets in Level 3	Decrease		Ending balance
				Purchase or issue	Transfer into Level 3		Sale, disposal, or settlement	Transfer out of Level 3	
Financial assets at fair value through other comprehensive income	\$ 135,536	-	190,523	-	-	-	-	-	326,059

4) There is no transfer between level 1 and level 2 financial instrument measured at fair value for the years ended December 31, 2019 and 2018.

5) Quantitative information about the significant unobservable inputs in Level 3

Quantitative information about the significant unobservable inputs are as follows:

December 31, 2019			
Items	Valuation techniques	Significant unobservable inputs	Relation ship between the significant unobservable inputs and fair value
Financial assets at fair value through other comprehensive income-equities investments in inactive market	Market approach-relevant information generated by listed companies	·Liquidity discount (19.95%~30.00%) ·Multiplier (1.05~1.89)	·The higher the liquidity discount, the lower the fair value. ·The higher the multiplier, the higher the fair value.
//	Income approach	·Discount rate (7.27%)	·The higher the discount rate, the lower the fair value.
//	Income approach	·Perpetual growth rate (1.58%)	·The higher perpetual growth rate, the higher the fair value.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018

Items	Valuation techniques	Significant unobservable inputs	Relation ship between the significant unobservable inputs and fair value
Financial assets at fair value through other comprehensive income-equities investments in inactive market	Market approach-relevant information generated by listed companies	·Liquidity discount (20.13%~30.00%) ·Multiplier (1.05~1.60)	·The higher the liquidity discount, the lower the fair value. ·The higher the multiplier, the higher the fair value.
"	Income approach	·Discount rate (7.16%)	·The higher the discount rate, the lower the fair value.
"	Income approach	·Perpetual growth rate (1.07%)	·The higher perpetual growth rate, the higher the fair value.

6) Valuation processes for Level 3 fair value measurements

The Bank's Financial Division (the "Division") is responsible for independently verifying fair value, confirming the reasonableness of price provided by third parties.

7) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions are used

		Change in fair value recognize under other comprehensive income	
		Positive	Negative
December 31, 2019	Inputs	Variance	
Financial assets at fair value through other comprehensive income			
Equities investments in inactive market	Liquidity discount	1%	277 (277)
	Multiplier	1%	218 (218)
	Discount rate	1%	43,286 (29,986)
	Perptual growth rate	0.1%	3,028 (2,909)

(Continued)

Bank of Panhsin
Notes to the Financial Statements

	Inputs	Variance	Change in fair value recognize under other comprehensive income	
			Positive	Negative
December 31, 2018				
Financial assets measured at fair value through other comprehensive income				
Equities investments in inactive market	Liquidity discount	1%	262	(262)
	Multiplier	1%	206	(206)
	Discount rate	1%	38,061	(26,957)
	Perptual growth rate	0.1%	2,672	(2,553)

(iii) For the years ended December 31, 2019 and 2018, gain (loss) recognized by the Bank from the fair value evaluation of financial instruments by using valuation techniques amounted to \$49,557 and \$(29,325), respectively.

(iv) Offsetting financial assets and financial liabilities

IAS 32 section 42 on "Offsetting financial instruments transaction" is not applicable to the Bank, and the transactions related to financial assets and financial liabilities are not expressed as net value on the balance sheet.

The Bank has no exercisable master netting arrangements or similar agreements (such as repurchase agreement, reverse repurchase and derivatives transaction).

(v) Financial risk management

The Bank uses risk management with effective risk diversification to meet its business operating targets, to increase its value, and to ensure benefit to its shareholders. The risk management is based on the needs of customers, business development, overall risk tolerance, and regulatory requirements.

The major risks that the Bank might possibly face are credit risk, market risk, and liquidity risk of items on and off the statements of financial position.

(Continued)

Bank of Panhsin

Notes to the Financial Statements

The Bank has established and documented various risk management policies and procedures which have been approved by the board of directors. The board of directors of the Bank has ultimate responsibility for risk management and is responsible for the establishment and effectiveness of operation of risk management. There are a business development committee, credit committee, asset and liability management committee, risk management committee, trust property management committee, human recruitment committee, employee training committee, and information development committee to take charge of business development, business operation, risk controls, etc. The risk management committee is responsible for the principles, policies and targets of the Bank's overall risk control and is also responsible for coordination among committees. Internal control is in charge of the independent check of the risk controls.

1) Credit risk

a) Description of credit risk

Credit risk refers to the risk of financial loss of the Bank and its subsidiaries resulting from a borrower failing to meet its contractual obligations due to credit deterioration or other factors (such as an argument between the borrower and a counter-party).

b) Credit risk management policy

The Bank's target is to develop a sound system of credit risk management mechanisms by using effective identification, measurement, communication and reporting, monitoring and management of the various credit risks to control possible credit risk at a tolerable level, to maintain adequate capital, to increase the return on assets after adjustments, to connect the risk level and business strategies, and to achieve the business and operation goals by gradually making transparent, systematizing, and professional the credit risk management.

c) Credit risk management scope

The Bank is engaged in activities on and off the statement of financial position, which would cause (occurred or not yet occurred) credit risk. The activities are the overall credit business, overdue loan business, and use of credit risk mitigation tools (such as the provision of collateral guarantees and hedging) as well as other operations related to the product or parts of the credit risk associated with the activities aforementioned included in the scope of credit risk management mechanisms.

d) Credit risk management procedures

The credit risk management procedures include risk identification, measurement, communication, monitoring, and reporting. To maintain the standard of credit business at a safe and moderate level, to monitor the credit risk, to evaluate new business opportunities, and to identify and manage problems in credit cases, the business department must follow all the procedures of the Bank when conducting business. To ensure credit risk at a tolerable level, each credit case must be authorized by decentralized procedures which include a serious review process to improve the quality of assets, reassessment and an early alarm system after

(Continued)

Bank of Panhsin
Notes to the Financial Statements

authorizing loans to fully grasp the operating and financial information of the client and the status of the economy, and continuous evaluation and monitoring of changes in credibility to early discover any information which has not been announced publicly and to detect any indication of default risk. Thus, the Bank could control the quality of assets at a tolerable level, balance the risks and profitability, and also improve the business performance and benefit the investors.

- e) Determining the credit risk has increased significantly since the initial recognition
- i) At each reporting date, the Bank shall determine whether the credit risk of financial assets has increased significantly since initial recognition and measures loss allowances at an amount equal to lifetime expected credit loss (ECL)

If one or more of the following conditions are satisfied, the credit risk of financial asset is determined as increased significantly:

1. In accordance with the internal rules of the Bank, wherein the status of the debtor is "Alerts" but no tracking is required.
2. The status of the debtor is "Normal" and overdue is more than 30 days.
3. The debtor has reached its overdue and made the repayment 7 days thereafter, through negotiation with the Bank.
4. TCRI rating of the debtor has dropped two degree (or more), or dropped one degree but with "C" or "D".

- ii) Low credit risk: If the credit risk of a financial instrument is assessed as low, the Bank may consider it as insignificant since initial recognition.

- f) Definition of financial assets being credit impaired

If one or more of the following conditions are satisfied, the financial asset is determined to be credit impaired:

- i) Status of the debtor is "Overdue" or "Recoverable".
- ii) The debtor has reached its overdue and made the repayment over 7 days, through negotiation with the Bank.
- iii) Other special or abnormal condition which is assessed to be listed.

- g) Write-off policies

The Bank writes-off uncollectable receivables after reporting to the Board. Adjustments for provision were made after recovery of the write-offs.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

h) Measurement of expected credit loss (ECL)

i) Adopted methods and assumptions

For financial assets with low credit risk and no significant increase in credit risk since the initial recognition, the 12-month expected credit loss amount is used to measure the allowance loss. For various financial assets that have been significantly increased in credit risk or credit impaired since the initial recognition, the lifetime expected credit loss amount is used to measure the allowance loss.

To measure the expected credit loss, the Bank considers the borrower's probability of default (PD) for the next 12 months and its lifetime, and then include the loss given default (LGD) multiplied by the exposure at default (EAD), and considers the impact of the time value of money to calculate the expected credit losses for 12 months and lifetime, respectively.

PD is the default probability of the borrower, and LGD is the rate of loss caused by default by the borrower. PD and LGD used in the impairment assessment for various loans businesses of the Bank are calculated after adjusting historical data based on internal historical information (such as credit loss experience) of each combination, and based on the current observable information and forward-looking general economic information.

ii) Consideration of forward-looking information

When the Bank measure ECL in various types of financial assets, it takes into consideration the forward-looking information, performs the forward-looking model estimations based on the nature of loan products, and establishes credit risk link models based on past default rates and overall economic information. The model estimates the relationship between the default rate and the overall economic information, and establishes a model to predict the forecast value of the overall economic information to predict the default rate in the following year. Then, the forward-looking adjustments are applied to the ECL. In principle, the validity of the abovementioned forward-looking model is examined annually.

i) Credit risk hedging policy

i) Strengthening security

Besides strengthening the reviews process, setting risk limits, adjusting credit amounts and conditions, and monitoring loans, the Bank is also increasing the pledged amount and the quality of guarantee to reduce credit risk. Also, the Bank has established standards and measurement, management, and disposal procedures for pledged assets.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

ii) Managing credit concentration risk limits and risk management

To avoid the risk of business concentration, the Bank sets limits to its main business by country, by industry, by group, and by individual client each year. The limits are reviewed and updated yearly according to the overall economic environment and industrial development prospects. Transactions are kept within prescribed limits to control the risk of business concentration. In addition, for credit for individual companies and groups, the Bank also sets limits for industries, individuals, related parties, and related companies of the same group. Monthly reporting of changes in circumstances and the credit limits is required to implement the principle of spreading risk to ensure stable operation.

j) Maximum exposure to credit risk

Without taking any collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance sheet financial assets is equal to their carrying values and the maximum exposure to credit risk of off-balance sheet financial instruments were as follows:

	December 31, 2019	December 31, 2018
Unused amounts of irrevocable loan commitments	\$ 4,230,597	3,781,294
Unused amount of irrevocable letter of credit	1,483,718	1,345,602
Various guarantee proceeds	3,419,741	2,855,153
Total	<u>\$ 9,134,056</u>	<u>7,982,049</u>

Information on the maximum exposure and impact on financial statements related to on balance sheet and off-balance sheet items held as collateral, master netting arrangement, and other credit enhancements were as follows:

December 31, 2019	Collateral	Master netting arrangement	Other credit enhancement	Total
<u>Items on statement of financial positions</u>				
Loans and discounts	\$ 124,496,455	-	43,458,380	167,954,835
Acceptance receivables	48,241	-	225,957	274,198
<u>Items off statement of financial positions</u>				
Various guarantee proceeds	622,260	-	2,797,481	3,419,741
Total	<u>\$ 125,166,956</u>	<u>-</u>	<u>46,481,818</u>	<u>171,648,774</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

<u>December 31, 2018</u>	<u>Collateral</u>	<u>Master netting arrangement</u>	<u>Other credit enhancement</u>	<u>Total</u>
<u>Items on statement of financial positions</u>				
Loans and discounts	\$ 117,411,025	-	37,065,529	154,476,554
Acceptance receivables	31,975	-	120,317	152,292
<u>Items off statement of financial positions</u>				
Various guarantee proceeds	292,354	-	2,562,799	2,855,153
Total	<u>\$ 117,735,354</u>	<u>-</u>	<u>39,748,645</u>	<u>157,483,999</u>

k) The Bank's credit risk concentration

The Bank attaches importance to the principles of credit risk diversification. For extension of credit and investment as a whole, the Bank has no concentration of credit risk on a single customer or counterparty. The Bank's credit exposure arises mainly from business loans based in Taiwan. Thus, there is no breakdown of credit risk by area. Concentration of credit risk by industry and collateral was as follows:

By industry

<u>By industry</u>	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Manufacturing	\$ 19,149,201	11.40	16,852,238	10.91
General businesses	60,518,795	36.03	48,178,226	31.19
Constructions	5,368,362	3.20	7,219,080	4.67
Individuals	70,679,072	42.08	70,547,859	45.67
Others	12,239,405	7.29	11,679,151	7.56
	<u>\$ 167,954,835</u>	<u>100.00</u>	<u>154,476,554</u>	<u>100.00</u>

By collateral

<u>By collateral</u>	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Non-secured	\$ 43,458,380	25.88	37,065,529	23.99
Secured	124,496,455	74.12	117,411,025	76.01
Financial collateral	3,073,739	1.83	3,115,100	2.02
Accounts receivable	111,981,009	66.67	106,004,044	68.62
Real estate	8,577,178	5.11	7,387,311	4.78
Guarantee	864,529	0.51	904,570	0.59
	<u>\$ 167,954,835</u>	<u>100.00</u>	<u>154,476,554</u>	<u>100.00</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

l) Credit quality and impairment analysis of overdue credit

Due to the high credibility of counterparties, the Bank has assessed the credit risk of the financial assets owned, for example, cash and cash equivalents, due from Central Bank and call loans to banks, financial assets at fair value through profit or loss, securities purchased under resell agreements, refundable deposits, operating deposits and settlement funds, to be low.

Though the financial assets may be overdue when the borrower has temporarily delayed its payment, no impairment has occurred. According to the Bank's policy, no impairment has occurred if the financial assets were less than 90 days overdue, unless, other objective evidence appears.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Additional credit quality analysis of financial assets was as follows:

i) Credit quality analysis for loans and discounts, and receivables

Name	December 31, 2019										
	12 months				Lifetime (not impaired)				Lifetime (impaired)	Allowance for impairment loss	Total
	Low risk	Medium risk	High risk	Subtotal	Low risk	Medium risk	High risk	Subtotal			
Items on statement of financial position											
Receivables											
Acceptance	\$ 274,198	-	-	274,198	-	-	-	-	-	5,116	269,082
Loan interest	198,885	331	162	199,378	2,176	195	450	2,821	14,706	2,975	213,930
Others	1,095,452	6	5	1,095,463	21	3	2	26	5,923	2,956	1,098,456
Loans and discounts	163,575,926	135,868	76,331	163,788,125	1,877,543	33,336	43,787	1,954,666	2,212,044	2,010,437	165,944,398
Non-accrual loan	-	-	-	-	-	-	-	-	15,095	15,095	-
	<u>\$ 165,144,461</u>	<u>136,205</u>	<u>76,498</u>	<u>165,357,164</u>	<u>1,879,740</u>	<u>33,534</u>	<u>44,239</u>	<u>1,957,513</u>	<u>2,247,768</u>	<u>2,036,579</u>	<u>167,525,866</u>
Items off statement of financial position											
Guarantees	\$ 3,244,991	-	-	3,244,991	100,000	-	-	100,000	74,750	35,828	3,383,913
Letter of Credit	1,471,324	-	-	1,471,324	10,649	-	-	10,649	1,745	5,465	1,478,253
Loan Commitments	4,230,597	-	-	4,230,597	-	-	-	-	-	31,773	4,198,824

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018											
Name	12 months				Lifetime (not impaired)				Lifetime (impaired)	Allowance for impairment loss	Total
	Low risk	Medium risk	High risk	Subtotal	Low risk	Medium risk	High risk	Subtotal			
Items on statement of financial position											
Receivables											
Acceptance	\$ 155,292	-	-	155,292	-	-	-	-	-	6,136	149,156
Loan interest	222,534	385	166	223,085	2,610	736	310	3,656	1,936	2,975	225,702
Others	1,218,691	6	9	1,218,706	32	8	3	43	12,358	1,870	1,229,237
Loans and discounts	<u>150,343,656</u>	<u>171,550</u>	<u>61,247</u>	<u>150,576,453</u>	<u>1,641,923</u>	<u>167,208</u>	<u>40,079</u>	<u>1,849,210</u>	<u>2,050,891</u>	<u>1,915,250</u>	<u>152,561,304</u>
	<u>\$ 151,940,173</u>	<u>171,941</u>	<u>61,422</u>	<u>152,173,536</u>	<u>1,644,565</u>	<u>167,952</u>	<u>40,392</u>	<u>1,852,909</u>	<u>2,065,185</u>	<u>1,926,231</u>	<u>154,165,399</u>
Items off statement of financial position											
Guarantees	\$ 2,855,153	-	-	2,855,153	-	-	-	-	-	30,030	2,825,123
Letter of Credit	1,335,238	-	-	1,335,238	10,364	-	-	10,364	-	6,569	1,339,033
Loan Commitments	3,781,294	-	-	3,781,294	-	-	-	-	-	28,354	3,752,940

Bank of Panhsin
Notes to the Financial Statements

ii) Credit quality analysis for marketable securities

Name	December 31, 2019										
	12 months				Lifetime (not impaired)				Lifetime (impaired)	Accumulated impairment loss	Total
	Investment grade	Non- investment grade	No credit ratings	Subtotal	Investment grade	Non- investment grade	No credit ratings	Subtotal			
Financial assets at fair value through other comprehensive income											
Debt instrument investment	\$ 15,825,070	-	-	15,825,070	-	-	-	-	-	2,286	15,822,784
Debt instrument investment at amortized cost											
Debt instrument investment	36,957,858	-	-	36,957,858	-	-	-	-	-	433	36,957,425

Bank of Panhsin
Notes to the Financial Statements

Name	December 31, 2018									
	12 months				Lifetime (not impaired)				Accumulated impairment loss	Total
	Investment grade	Non- investment grade	No credit ratings	Subtotal	Investment grade	Non- investment grade	No credit ratings	Subtotal		
Financial assets at fair value through other comprehensive income										
Debt instrument investment	\$ 13,331,902	-	-	13,331,902	-	-	-	-	2,452	13,329,450
Debt instrument investment at amortized cost										
Debt instrument investment	41,835,000	-	-	41,835,000	-	-	-	-	-	41,835,000

Bank of Panhsin
Notes to the Financial Statements

2) Market risk, liquidity risk, and interest rate risk

a) Risk management framework

Market risk, liquidity risk, interest rate risk, and other risks related to daily operations are managed by the Bank.

i) Market risk

This is the risk that market prices of assets go against the position of the Bank. Market prices refer to interest rates, stock prices, foreign exchange rates, and commodity prices.

ii) Liquidity risk

This is the risk that a given security or asset has difficulty in being sold in the market to fulfill financial obligations. This may cause a loss or a capital decrease for the Bank.

iii) Interest risk

This is the risk that an investment's value changes due to a change in interest rates. A change in interest rates can affect net interest income and income from other interest-sensitive assets, and inversely affect the Bank's earnings. Simultaneously, it can also affect the valuation gain or loss on and off the statement of financial position the statement of financial position.

b) Risk management process

The Bank's risk management process includes risk identification, measurement, assessment, and reporting. The risks relate to the Bank's trading activities and process, commodity trading, and system. All such risks are managed on a daily basis.

i) Risk identification

1. Market risk

The Bank's sales department and risk management department must understand the sources of market risk, market risk factors, and the aftermath of a market downturn. In addition to understanding the risks mentioned above, the Bank also must know the impacts on the business.

2. Liquidity risk

The Bank's sales department and risk management department must understand that liquidity risk comes from mismatch between assets and liabilities either on or off the statement of financial position.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

3. Interest rate risk

The Bank's sales department and risk management department must understand that interest rate risk comes from changes in interest rates due to pricing risk, yield curve risk, and basis risk that will have an impact on the Bank's earnings.

ii) Risk assessment and measurement

1. Market risk

The Bank measures market risk, including the level of risk acceptance and the level of concentration. In addition, it follows the capital adequacy rules under the Basel Accords and risk indicators issued by the authority. The Bank does not evaluate the risk with a model due to the simplicity of its business. The Bank evaluates its investment position by the following methods: (1) market prices, (2) prices of other similar assets, or (3) other adequate evaluation methods, which have to be used consistently.

2. Liquidity risk

The Bank assesses for measures liquidity risk by using all liquidity risk indicators, balance sheet mismatch, source of funds, use of funds, line of credit level, and plans for funding in the market.

3. Interest rate risk

The Bank's interest rate risk includes reprising risk, yield curve risk, and basis risk. Methods to assess and measure risk are analyzing (1) the interest sensitivity gap; (2) the capital adequacy ratio; (3) interest rate caps and floors; and (4) the structure of the position concentration ratio.

iii) Risk monitoring and control

The Bank has used several techniques such as credit limitation management, a stop-loss system, transaction quotas, the capital liquidity gap, and the interest sensitivity gap in order to monitor market risk, liquidity risk, and interest rate risk, and has a clear reporting process. Things monitored are the trading unit, financial instruments traded in whole or in part, the liquid reserve ratio, the core deposit ratio, net stable funding ratio, and the ratio of the Bank's interest-rate-sensitive assets to its interest-rate-sensitive liabilities (gap ratio).

(Continued)

Bank of Panhsin
Notes to the Financial Statements

iv) Risk reporting

The Bank has required departments involved in defined market risk, liquidity risk, and interest rate risk in the banking book to submit immediate, daily, or periodic transaction information to the business units. In cases where an overrun or an exception occurs, immediate notification is necessary. The risk management unit is responsible for providing information regarding risk position, the profit and loss situation, usage limits, etc., to the board, Risk Management Committee, and Asset and Liability Management Committee and for providing other appropriate reports and recommendations of the Committees.

c) Maturity analysis of financial assets and financial liabilities

The management policy of the Bank is to match to the contractual maturity profile with the interest rate risk exposures of assets and liabilities and to manage unexpected cash outflow. Because of uncertainty, the maturities did not fully match the interest rates, resulting in gaps that may potentially give rise to gain or loss. The maturity analysis of assets and liabilities was as follows:

December 31, 2019							
Items	0~10 Days	11~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	Over 1 Year	Total
Assets							
Cash and Deposits with other banks	\$ 6,261,253	313,280	830,847	966,046	1,732,945	1,946,387	12,050,758
Securities Investments	9,674,148	12,000,000	1,000,000	3,240,000	6,130,241	15,814,152	47,858,541
Securities purchased under resell agreements	649,478	-	-	-	-	-	649,478
Loans (include NPL)	7,590,061	4,996,826	12,096,197	25,152,058	27,717,415	75,257,764	152,810,321
Interest Receivables	51,712	113,655	10,638	33,402	35,413	14,231	259,051
Liabilities							
Deposits from Central Bank and banks	346,141	280	603,950	373,550	192,940	-	1,516,861
Demand deposits	720,705	1,441,411	4,324,232	6,486,349	12,972,697	59,852,869	85,798,263
Time deposits	3,844,959	9,074,094	23,552,224	25,925,039	46,150,880	5,425,594	113,972,790
Borrowings	-	-	-	3,000,000	-	3,971,000	6,971,000
Interest payables	71,679	16,056	37,529	80,914	55,693	5,661	267,532
Lease liabilities	-	15,148	27,305	43,851	46,258	218,066	350,628
Others	679,472	347,052	67,898	91,411	-	532,541	1,718,374

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018							
Items	0~10 Days	11~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	Over 1 Year	Total
Assets							
Cash and Deposits with other banks	\$ 6,767,219	355,350	855,365	921,957	1,721,063	1,796,266	12,417,220
Securities Investments	11,252,433	13,200,261	2,775,000	2,945,000	9,919,615	13,074,516	53,166,825
Securities purchased under resell agreements	2,416,582	799,364	-	-	-	-	3,215,946
Loans (include NPL)	7,496,864	4,642,778	11,964,358	19,008,161	30,017,910	66,527,754	139,657,825
Interest Receivables	63,469	130,191	17,839	23,821	43,324	12,138	290,782
Liabilities							
Deposits from Central Bank and banks	39,310	280	502,480	475,020	192,940	-	1,210,030
Demand deposits	667,952	1,335,905	4,007,715	6,011,572	12,023,145	55,471,864	79,518,153
Time deposits	2,432,459	10,815,644	25,242,171	25,515,388	46,809,029	5,925,202	116,739,893
Borrowing	-	-	-	-	-	6,311,000	6,311,000
Interest payables	76,709	15,646	36,455	71,146	56,556	5,248	261,760
Others	1,263,495	271,112	245,297	102,150	23,789	373,639	2,279,482

d) **Maturity analysis of items off the statement of financial position**

The table below shows the maturity analysis of the items off the statement of financial position based on the remaining time until the contractual maturity date. For issued financial guarantee contracts, the maximum guaranteed amount included in the guarantee may be required to be paid at the very beginning of the contract period. The amount disclosed is based on contractual cash flows and may be different from that included in the consolidated statement of financial position.

December 31, 2019			
	Less than 1 year	Over 1 year	Total
Unused amount of irrevocable loan commitment	\$ 300,465	3,930,132	4,230,597
Unused amount of irrevocable letter of credit	1,411,085	72,633	1,483,718
Various guarantee proceeds	685,412	2,734,329	3,419,741
December 31, 2018			
	Less than 1 year	Over 1 year	Total
Unused amount of irrevocable loan commitment	\$ 473,492	3,307,802	3,781,294
Unused amount of irrevocable letter of credit	1,194,024	151,578	1,345,602
Various guarantee proceeds	874,013	1,981,140	2,855,153

(Continued)

Bank of Panhsin
Notes to the Financial Statements

e) Maturity analysis of lease agreements and capital expenditure

The lease contracts of the Bank are operating leases. The operating lease commitment is the future minimum rental payment under operating leases when the Bank is a lessee or lessor.

The capital expenditure commitment of the Bank is the contractual commitment for obtaining buildings and equipment.

Maturity analysis of lease agreements and capital expenditure is as follows:

<u>December 31, 2019</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Lease commitments				
Operating lease income (lessor)	\$ 105,760	229,379	43,527	378,666
<u>December 31, 2018</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Lease commitments				
Operating lease payment (lessee)	\$ 172,956	264,891	3,735	441,582
Operating lease income (lessor)	105,455	244,217	65,753	415,425

f) Market risk sensitivity analysis

The Bank uses market risk sensitivity as a tool to manage risks. Market risk sensitivity is the change in the value of positions due to the change in specific market risk factors by one unit.

Interest rate sensitivity is the change in the price value of a basis point (PVBp) of future cash flow of the Bank's interest rate product position as the yield curve shifts up by 1.0% on the statement of financial position date.

In addition, the Bank does not have a significant net foreign currency position. Therefore, exchange rate fluctuation will not cause any significant exchange rate risk to the Bank.

Sensitivity analysis is as follows:

Main risk	Name	December 31, 2019		
		Cost/ par value	Amount	
			Equity	Gain or loss
Interest rate risk	Government bonds, corporate bonds, and financial debentures	19,328,132	(716,432)	(201,434)

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Main risk	Name	December 31, 2018		
		Cost/ par value	Amount	
			Equity	Gain or loss
Interest rate risk	Government bonds, corporate bonds, and financial debentures	14,058,467	(439,688)	(41,778)

g) Exchange rate risk

December 31, 2019			
	Foreign currency (thousand dollars)	Exchange rate (dollars)	New Taiwan dollars (thousand dollars)
Financial assets			
Monetary item			
USD	451,180	30.1060	13,583,225
EUR	8,111	33.7368	273,636
JPY	390,781	0.2771	108,272
HKD	39,000	3.8660	150,775
CAD	184	23.0821	4,236
SGD	3,878	22.3670	86,737
CNY	223,100	4.3235	964,579
Financial liabilities			
Monetary item			
USD	544,287	30.1060	16,386,291
EUR	4,098	33.7368	138,263
JPY	1,486,158	0.2771	411,764
HKD	12,648	3.8660	48,896
AUD	34,887	21.1043	736,275
GBP	892	39.5292	35,245
CAD	3,972	23.0821	91,677
CHF	4	31.0724	133
NZD	2,207	20.2704	44,731
SGD	92	22.3670	2,057
ZAR	156,854	2.1392	335,536
CNY	174,100	4.3235	752,727

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018			
	Foreign currency (thousand dollars)	Exchange rate (dollars)	New Taiwan dollars (thousand dollars)
Financial assets			
Monetary item			
USD	437,425	30.7330	13,443,390
EUR	4,924	35.1985	173,319
JPY	138,471	0.2784	38,551
HKD	45,750	3.9240	179,524
AUD	37	21.6760	801
CNY	187,184	4.4744	837,528
Financial liabilities			
Monetary item			
USD	523,884	30.7330	16,100,531
EUR	4,287	35.1985	150,899
JPY	1,222,505	0.2784	340,350
HKD	14,041	3.9240	55,095
AUD	35,108	21.6760	761,009
GBP	1,954	38.8957	76,011
CAD	3,191	22.5945	72,102
CHF	3	31.2105	94
NZD	2,118	20.6249	43,678
SGD	90	22.4920	2,032
ZAR	140,392	2.1296	298,973
CNY	159,143	4.4744	712,063

h) **Capital management**

i) **Capital management objectives**

The capital management objective of the Bank is to have sufficient eligible capital to meet the capital requirements and the minimum legal capital adequacy ratio. The eligible capital and the authorized capital are calculated pursuant to the regulations set by the regulators.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

To enable the Bank to have adequate capital to cover various risks, the required capital should be calculated based on the portfolio risk and the risk characteristics that the Bank faces. Optimal allocation of resources can be achieved by regularly reviewing the objectives of capital management.

ii) Capital management procedures

The Bank maintains adequate capital to meet the requirements of the authority and reports to the authority on a quarterly basis.

The Bank's regulatory capital is divided into Tier 1 Capital and Tier 2 Capital following the "Regulations Governing the Capital Adequacy and Capital Category of Banks".

Tier 1 capital includes common equity and additional Tier I capital.

The common equity Tier I capital consists of the common equity that reduces intangible assets, the deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, and the statutory adjustment items calculated in accordance with other rules for calculation methods.

The common equity Tier I capital shall mean the sum of the following items:

1. Common stock and additional paid-in capital in excess of par- common stock
2. Capital collected in advance
3. Capital reserves
4. Statutory surplus reserves
5. Special reserves
6. Accumulated profit or loss
7. Non-controlling interests
8. Other items of interest

(Continued)

Bank of Panhsin
Notes to the Financial Statements

The range of additional Tier I capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.

1. Non-cumulative perpetual preferred stock and its capital stock premium.
2. Non-cumulative perpetual subordinated debts.
3. The additional Tier I capital, which are issued by the Banks' subsidiaries, and are not directly or indirectly held by the Bank.

The range of Tier II capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.

1. Cumulative perpetual preferred stock and its capital stock premium.
2. Cumulative perpetual subordinated debts.
3. Convertible subordinated debts
4. Long-term subordinated debts
5. Non-perpetual preferred stock and its capital stock premium
6. When first time applying International Financial Reporting Standards in real estate and using the fair value or the re-estimated value method as the deemed cost, the difference in amount between the deemed cost and the book value recognized in retained earnings.
7. The 45% of unrealized gains on changes in the fair value of investment properties using fair value method, as well as the 45% of unrealized gains on financial assets measured at fair value through other comprehensive income.
8. Operational reserves and loan-loss provisions.
9. The Tier II capital, which are issued by the Banks' subsidiaries, and are not directly or indirectly held by the Bank.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

The capital adequacy ratios of the Bank and its subsidiaries are disclosed below:

Analysis item			Period-end	December 31, 2019	December 31, 2018
Eligible capital	Common equity			12,991,667	11,996,641
	capital	Additional Tier I capital		1,643,599	1,677,120
		Tier II capital		3,203,348	3,210,206
		Eligible capital			17,838,614
Risk-weighted assets	Credit risk	Standardized approach		149,260,597	140,419,282
		Internal rating-based approach		-	-
		Securitization		-	-
	Operational risk	Basic indicator standardized approach		6,322,775	6,030,425
		Standardized approach / alternative approach		-	-
		Advanced measurement approach		-	-
	Market risk	Standardized approach		499,613	596,713
		Internal model approach		-	-
	Total risk-weighted assets				156,082,985
Capital adequacy ratio				11.43 %	11.48 %
Tier I captial ratio				9.38 %	9.30 %
Common equity Tier I ratio				8.32 %	8.16 %
Leverage ratio				5.61 %	5.42 %

Note: 1. The calculation of eligible capital, risk-weighted assets, and the total amount of risk exposure shall follow the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks".

2. The table uses the calculation formulas as follows:

- (1) Eligible capital = common equity + additional Tier I capital + Tier II capital
- (2) Risk-weighted assets = credit risk-weighted assets + (capital requirement for operational risk + capital requirement for market risk) × 12.5
- (3) Capital adequacy ratio = eligible capital / risk-weighted assets
- (4) Common equity Tier I ratio = common equity / total risk-weighted assets
- (5) Tier I capital ratio = (common equity + other Tier I capital) / risk-weighted assets
- (6) Leverage ratio = Tier I capital / total exposure

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(7) Related-party transactions

(a) Name and relationship of related parties

Related parties	Relationship
Panhsin Asset Management Co., Ltd.	Subsidiary
Panhsin International Leasing Co., Ltd.	Subsidiary
Sheng Ping Zuo Construction Co.	Related Party in substance
Xin Hui Construction Co., Ltd.	Related Party in substance
Cheng Hui Construction Co., Ltd.	Related Party in substance
Da Wang Construction Co., Ltd.	Related Party in substance
Shan Hui Construction Co., Ltd.	Related Party in substance
Other related parties	The board of directors, general manager, vice general manager, and managers of the Bank, and according to IAS 24- Related Party Disclosures, related parties should include: 1. The spouse or a relative within the second degree or closer of the Bank's management. 2. A company's directors, supervisors, and general manager is the same person from the Bank's management and above relatives.

(b) Significant transactions with related parties

(i) Deposits

2019			
Name	Ending balance	Percentage of deposits	Interest rate (%)
Deposits by each related party not over 1% of total deposits	\$ <u><u>1,052,516</u></u>	<u><u>0.48</u></u>	0.01~8.16
2018			
Name	Ending balance	Percentage of deposits	Interest rate (%)
Deposits by each related party not over 1% of total deposits	\$ <u><u>1,685,600</u></u>	<u><u>0.78</u></u>	0.01~8.16

For the years ended December 31, 2019 and 2018, apart from an interest rate limit on staff demand savings deposits of 6.42% to 6.50% and 6.50% to 6.75%, respectively, the interest rates and other terms provided to the above related parties were the same as the terms offered to the general public.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

For the years ended December 31, 2019 and 2018 interest expense paid on the above deposits was \$8,059 and \$8,075, respectively.

(ii) Loans

2019							
Type of loan	Number of accounts or name of related party	Maximum during the period	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On time	Overdue		
Employee credit loan	26	63,904	43,273	43,273	-	Real estate	None
Mortgage	11	57,194	38,900	38,900	-	Real estate	None
Others	28	871,399	408,211	408,211	-	Real estate	None

2018							
Type of loan	Number of accounts or name of related party	Maximum during the period	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On time	Overdue		
Employee credit loan	23	51,996	39,890	39,890	-	Real estate	None
Mortgage	10	57,121	54,914	54,914	-	None	None
Others	Sheng Ping Zuo Construction Co.	291,332	-	-	-	Real estate	None
	15	838,165	412,749	412,749	-	Real estate	None

For the years ended December 31, 2019 and 2018, interest income recognized for the above loans was \$10,193 and \$12,956, respectively.

(iii) Leases

1) As a lesser

Name	Rental income	
	2019	2018
Panshin Asset Management Co., Ltd.	\$ 3,600	4,650

2) As a lessee

Name	Right-of-use assets	
	December 31, 2019	January 1, 2019
Xin Hui Construction Co., Ltd.	\$ 7,353	9,243
Cheng Hui Construction Co., Ltd.	7,353	9,243
Da Wang Construction Co., Ltd.	257	2,962
Shan Hui Construction Co., Ltd.	3,500	9,500
Total	\$ 18,463	30,948

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Name	Lease liabilities	
	December 31, 2019	January 1, 2019
Xin Hui Construction Co., Ltd.	\$ 7,436	9,505
Cheng Hui Construction Co., Ltd.	7,436	9,505
Da Wang Construction Co., Ltd.	-	2,962
Shan Hui Construction Co., Ltd.	3,749	9,952
Total	\$ 18,621	31,924

Name	Rental expense	
	2019	2018
Xin Hui Construction Co., Ltd.	\$ 2,283	2,283
Cheng Hui Construction Co., Ltd.	2,283	2,283
Da Wang Construction Co., Ltd.	3,043	3,022
Shan Hui Construction Co., Ltd.	6,377	6,300
Total	\$ 13,986	13,888

(iv) Other

- 1) For the years ended December 31, 2019 and 2018, the details of the Bank's selling a series of subordinated financial debentures to related parties were as follows:

2019			
Related party	Ending balance	Interest rate (%)	Interest expense
Other related parties	<u>62,700</u>	2.56~4.75	<u>2,747</u>
2018			
Related party	Ending balance	Interest rate (%)	Interest expense
Other related parties	<u>68,700</u>	2.56~4.75	<u>3,032</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

2) Xin Rui Du foreclosed collateral sell contract

The Bank publicly auctioned the development rights of Xin Rui Du in 2008, and Panhsin Asset Management Co., Ltd. ("the AMC") was able to acquire the said development rights. The Ministry of Economic Affairs announced the AMC to take over the "Da Hu Industrial and Commercial Integrated District" develop plan. In compliance with the collateral disposal due date announced by the Regulatory and Article 76-2 of The Banking Act, the Bank entered into agreement with a counterparty to dispose the foreclosed collateral of Xin Rui Du on August 7, 2018. The AMC agreed to transfer the aforementioned development rights to the buyer, and decided to charge the Bank the disposal income distribution and repayment amounting to \$12,244, recognized as other payables by the bank. The disposal income distribution of \$3,217 (tax included) was recognized as the deduction of net gain (loss) on sales of foreclosed collaterals.

3) Operating income (loss) between related people:

Name	2019	2018
Other revenue		
Panshin Asset Management Co., Ltd.	\$ <u>19</u>	<u>19</u>

(c) Primary management

	2019	2018
Short-term employee benefits	\$ <u>57,469</u>	<u>58,897</u>
Post-employment benefits	\$ <u>867</u>	<u>925</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(8) Pledged assets

Pledged assets of the Bank and its subsidiaries were as follows:

Pledged Assets	Pledged for	December 31, 2019	December 31, 2018
Time deposit (recognized in AC)	Foreign currency—denominated overdraft guarantee	\$ 2,000,000	1,044,743
Government bonds (recognized in FVOCI)	Trust fund indenture reserve deposits	50,793	50,835
	Provisional seizure	117,645	129,326
	Operating deposits for trading bills	50,000	50,913
	Settlement operating deposits for trading bonds	10,000	10,183
	Deposits for Taxation Administration, Ministry of Finance	133,910	133,880
Bank savings (recognized in other assets, net)	Settlement deposits for bonds	8,100	8,100
	Deposits for lawsuits	2,208	11,998
		<u>\$ 2,372,656</u>	<u>1,439,978</u>

(9) Significant contingent liabilities and unrecognized contract commitments

(a) Significant contingent liabilities and unrecognized contract commitments

(i) Significant purchase agreements

December 31, 2019		
Contract name	Contract price	Unpaid portion of contract price
Significant purchase agreements:		
Software system	\$ 177,197	30,120
Computer facilities construction	109,880	108,192
Total	<u>\$ 287,077</u>	<u>138,312</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018

Contract name	Contract price	Unpaid portion of contract price
Significant purchase agreements:		
Software system	\$ <u>251,630</u>	<u>54,155</u>

(ii) For significant leases and capital expenditure, please refer to note 6(an).

(b) Other

	December 31, 2019	December 31, 2018
Consignment collection for others	\$ 7,439,148	8,046,264
Consignment released and loans for others	1,008,550	257,063
Collateral held as performance bond	23,773	17,105
Traveler's checks held for consignment sale	7,755	8,256
Custodial securities	130,000	130,000
Trust assets	<u>42,233,875</u>	<u>40,846,973</u>
Total	<u>\$ 50,843,101</u>	<u>49,305,661</u>
Unused amounts of irrevocable loan commitments	<u>\$ 4,230,597</u>	<u>3,781,294</u>
Various guarantee proceeds	<u>\$ 3,419,741</u>	<u>2,855,153</u>
Unused amount of irrevocable letter of credit	<u>\$ 1,483,718</u>	<u>1,345,602</u>

(c) In accordance with local regulations, disclosure of accounts in the statement of financial position and a summary of trust asset items for trust business are as follows:

Trust balance sheet			
December 31, 2019			
Trust assets		Trust liabilities	
Bank deposits	\$ 4,978,983	Management fees payable	341
Investment in bonds	1,654,973	Trust capital—monetary trust	19,582,421
Investment in stocks	1,811,333	Trust capital—securities trust	1,302,542
Investment in funds	13,418,844	Trust capital—real estate	21,114,248
Land	17,247,802	Trust capital—land rights	10,000
Building	52,079	Net income	605,976
Construction in progress	3,059,861	Unappropriated earnings	(317,660)
Land rights	<u>10,000</u>	Deferred suspense accounts	<u>(63,993)</u>
Total trust assets	<u>\$ 42,233,875</u>	Total trust liabilities	<u>42,233,875</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Trust balance sheet			
December 31, 2018			
Trust assets		Trust liabilities	
Bank deposits	\$ 3,733,405	Trust capital—monetary trust	18,713,998
Investment in bonds	867,958	Trust capital—real estate	19,866,231
Investment in stocks	1,994,768	Trust capital—monetary loans and guaranteed assets	735,482
Investment in funds	14,047,374	Trust capital—securities	1,364,826
Investment in loans	735,479	Trust capital—land rights	10,000
Land	16,230,862	Net income	517,329
Building	232,660	Unappropriated earnings	(315,524)
Construction in progress	2,994,467	Deferred suspense accounts	(45,369)
Land rights	10,000		
Total trust assets	<u>\$ 40,846,973</u>	Total trust liabilities	<u>40,846,973</u>

Trust income statement

	2019	2018
Trust revenue:		
Interest revenue	\$ 63,353	39,996
Realized investment gain—funds	122,186	123,559
Realized investment gain—bonds	18,343	587
Realized investment gain—stock	7,661	9,789
Cash dividends revenue	<u>774,380</u>	<u>766,445</u>
Subtotal	<u>985,923</u>	<u>940,376</u>
Trust expenses:		
Management expenses	9,512	16,098
Trust fees	9,328	5,790
Realized investment loss—funds	329,168	383,951
Realized investment loss—bonds	4,529	4,923
Realized investment loss—stock	27,333	12,203
Other expenses	<u>7</u>	<u>13</u>
Subtotal	<u>379,877</u>	<u>422,978</u>
Net income before income tax	606,046	517,398
Income tax expense	<u>70</u>	<u>69</u>
Net income after income tax	<u>\$ 605,976</u>	<u>517,329</u>

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Trust asset register	
December 31, 2019	
Item	Amount
Bank deposits	\$ 4,978,983
Investment in bonds	1,654,973
Investment in stocks	1,811,333
Investment in funds	13,418,844
Land	17,247,802
Building	52,079
Construction in progress	3,059,861
Land rights	10,000
Total	\$ 42,233,875

Trust asset register	
December 31, 2018	
Item	Amount
Bank deposits	\$ 3,733,405
Investment in bonds	867,958
Investment in stocks	1,994,768
Investment in funds	14,047,374
Investment in loans	735,479
Land	16,230,862
Building	232,660
Construction in progress	2,994,467
Land rights	10,000
Total	\$ 40,846,973

(10) Signification disaster loss: None

(11) Subsequent events: None

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(12) Other

- (a) A summary of employee benefit costs, depreciation, depletion and amortization for the years ended December 31, 2019 and 2018 was as follows:

Function Account	2019			2018		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit costs						
Salaries	-	1,346,901	1,346,901	-	1,234,002	1,234,002
Labor and health insurance	-	102,454	102,454	-	99,893	99,893
Pension	-	59,336	59,336	-	59,495	59,495
Remuneration of directors	-	35,825	35,825	-	22,748	22,748
Other personnel expense	-	54,467	54,467	-	55,425	55,425
Depreciation	-	314,284	314,284	-	141,807	141,807
Depletion	-	-	-	-	-	-
Amortization	-	42,462	42,462	-	36,291	36,291

The depreciation expense was \$29,533 and \$27,911 in 2019 and 2018, respectively, and was recorded under other non-interest income, net.

As of December 31, 2019 and 2018, the Bank had 1,426 and 1,424 employees, respectively, excluding 15 directors, who were non-employees.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

- (b) Average amount of, and current average interest rates on, interest-bearing assets and liabilities:

	2019	
	<u>Average Amount</u>	<u>Average Interest Rate (%)</u>
Interest-earning assets:		
Cash due from banks	\$ 745,128	0.69
Due from Central Bank and call loans to banks	7,130,303	0.81
Financial assets at fair value through profit or loss	1,442,348	0.84
Financial assets at fair value through other comprehensive income	13,176,126	1.27
Investments in debt instruments at amortised cost	38,418,699	0.60
Loans and receivables	159,374,588	2.42
Securities purchased under resell agreements	3,230,931	0.57
Interest-bearing liabilities:		
Due to banks and call loans from banks	3,524,393	1.39
Securities sold under repurchase agreements	1,766,061	2.56
Demand deposits	31,495,868	0.10
Time deposits	45,964,484	1.27
Negotiable certificates of deposit	415,332	0.63
Demand savings deposits	52,650,566	0.28
Time savings deposits	83,511,705	1.07
Financial debentures	6,652,753	3.30

(Continued)

Bank of Panhsin
Notes to the Financial Statements

	2018	
	Average Amount	Average Interest Rate (%)
Interest-earning assets:		
Cash due from banks	\$ 690,189	1.09
Due from Central Bank and call loans to banks	10,572,001	0.97
Financial assets at fair value through profit or loss	2,472,342	0.60
Financial assets at fair value through other comprehensive income	10,910,565	1.34
Investments in debt instruments at amortised cost	37,408,356	0.55
Loans and discounts	148,965,899	2.41
Securities purchased under resell agreements	5,467,365	0.46
Interest-bearing liabilities:		
Due to banks and call loans from banks	2,274,206	1.27
Securities sold under repurchase agreements	2,332,215	2.30
Demand deposits	29,231,108	0.08
Time deposits	47,277,518	1.06
Negotiable certificates of deposit	655,670	0.70
Demand savings deposits	50,212,501	0.29
Time savings deposits	83,233,836	1.08
Bank debentures issued	6,936,753	3.33

(Continued)

Bank of Panhsin
Notes to the Financial Statements

- (c) Supplementary disclosures of asset quality, overdue loans and receivables, concentration of credit extensions, interest rate sensitivity information, profitability, and the structure analysis of assets' and liabilities' time to maturity were as follows:

(i) Asset quality

Period			December 31, 2019				
Product		Overdue loan amount	Loan balance	Overdue ratio	Allowance for bad debts	Coverage ratio	
Corporate banking	Secured		341,980	55,158,916	0.62 %	729,396	213.29 %
	Unsecured		2,849	44,419,146	0.01 %	416,239	14,610.00 %
Consumer banking	Mortgage		57,861	25,281,087	0.23 %	416,226	719.36 %
	Cash card		-	-	- %	-	- %
	Credit loan		869	358,115	0.24 %	13,287	1,529.00 %
	Others	Secured	137,265	41,080,081	0.33 %	415,219	302.49 %
		Unsecured	-	1,657,490	- %	20,070	- %
	Total		540,824	167,954,835	0.32 %	2,010,437	371.74 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit cards			-	-	- %	-	- %
Without-recourse factoring			-	-	- %	-	- %

Period			December 31, 2018				
Product			Overdue loan amount	Loan balance	Overdue ratio	Allowance for bad debts	Coverage ratio
Corporate banking	Secured		844,886	49,118,948	1.72 %	657,640	77.84 %
	Unsecured		14,758	36,315,124	0.04 %	351,635	2,382.67 %
Consumer banking	Mortgage		277,038	25,412,258	1.09 %	425,371	153.54 %
	Cash card		-	-	- %	-	- %
	Credit loan		48	473,740	0.01 %	8,167	17,014.58 %
	Others	Secured	180,788	41,482,658	0.44 %	452,096	250.07 %
		Unsecured	-	1,673,826	- %	20,341	- %
	Total		1,317,518	154,476,554	0.85 %	1,915,250	145.37 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Cover rate
Credit cards			-	-	- %	-	- %
Without-recourse factoring			-	-	- %	-	- %

(Continued)

Bank of Panhsin
Notes to the Financial Statements

Exemption from reporting non-performing loans (NPL) and overdue receivables

	December 31, 2019		December 31, 2018	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loan agreement	17,712	-	25,929	-
As a result of debt solvency and restart plan	10,078	-	14,567	-
Total	27,790	-	40,496	-

(ii) Information on concentration of credit risk

Unit: NTD thousand

December 31, 2019			
Rank	Group company	Outstanding loan	Percentage of net worth (%)
1	A United Group (6811-Real Estate Activities for Sale and Rental with Own or Leased Property)	2,277,600	13.87 %
2	B United Group (4100-Construction of Buildings)	1,601,226	9.75 %
3	C United Group (2413-Iron and Steel Rolls over Extends and Crowding)	1,684,884	10.26 %
4	D United Group (6429-Activities of Other Holding Companies)	1,635,413	9.96 %
5	E United Group (6700-Real Estate Development Activities)	1,368,000	8.33 %
6	F United Group (6700-Real Estate Development Activities)	1,123,650	6.84 %
7	G United Group (6700-Real Estate Development Activities)	834,015	5.08 %
8	H United Group (6811-Real Estate Activities for Sale and Rental with Own or Leased Property)	796,000	4.85 %
9	I United Group (6691-Investment Advisory Services)	785,625	4.78 %
10	J United Group (6491-Financial leasing)	782,308	4.76 %
	Total	12,888,721	

(Continued)

Bank of Panhsin
Notes to the Financial Statements

December 31, 2018			
Rank	Group company	Outstanding loan	Percentage of net worth (%)
1	A United Group (6811-Real Estate Activities for Sale and Rental with Own or Leased Property)	2,613,900	16.97 %
2	D United Group (6429-Activities of Other Holding Companies)	1,631,876	10.59 %
3	B United Group (6499-Other financial service activities)	1,452,140	9.43 %
4	E United Group (4340-Building Completion and Finishing)	1,368,000	8.88 %
5	F United Group (6812-Real Estate Agencies Activities)	1,082,650	7.03 %
6	K United Group (4390-Other specialized construction activities)	940,108	6.10 %
7	L United Group (1850-Manufacture of Man-made Fiber)	881,864	5.72 %
8	I United Group (6691-Investment Advisory Services)	810,487	5.26 %
9	M United Group (2699-Manufacture of Other Electronic Parts and Components Not Elsewhere Classified)	746,034	4.84 %
10	N United Group (2101-Manufacture of Tires)	695,883	4.52 %
	Total	12,222,942	

Note: According to the total credit balance of credit-granting households, list the names of the top ten credit-granting enterprises that are not government or state-owned enterprises. If the credit-granting household is a group enterprise, the credit amount of the group enterprise should be returned to the household and added List and disclose by", code" plus "industry type" [such as company A (group) LCD panel and its component manufacturing industry], if it is a group company, it should disclose the industry with the greatest risk to the group company Type, industry category should be listed in the "Sub-category" industry name according to the industry standard classification of the main accounting department.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(iii) Interest rate sensitivity information

1) Sensitivity analysis of interest rate for assets and liabilities (NTD)

December 31, 2019

Unit: NTD thousand, %

Item	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$181,173,378	3,240,340	6,136,456	14,229,691	204,779,865
Interest-rate-sensitive liabilities	85,437,578	96,707,197	17,907,887	6,264,388	206,317,050
Interest-rate sensitivity gap	95,735,800	(93,466,857)	(11,771,431)	7,965,303	(1,537,185)
Net worth					16,420,826
Ratio of interest-rate-sensitive assets to liabilities					99.25
Ratio of interest-rate sensitivity gap to net worth					(9.36)

December 31, 2018

Item	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$174,545,116	2,962,579	9,893,032	11,938,196	199,338,923
Interest-rate-sensitive liabilities	86,243,801	87,565,982	18,538,441	9,303,186	201,651,410
Interest-rate sensitivity gap	88,301,315	(84,603,403)	(8,645,409)	2,635,010	(2,312,487)
Net worth					15,404,197
Ratio of interest-rate-sensitive assets to liabilities					98.85
Ratio of interest-rate sensitivity gap to net worth					(15.01)

(Continued)

Bank of Panhsin
Notes to the Financial Statements

2) Sensitivity analysis of interest rate for assets and liabilities (USD)

December 31, 2019

Unit: USD thousand, %

Item	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$ 460,525	44,014	-	248,954	753,493
Interest-rate-sensitive liabilities	532,280	95,824	72,662	376	701,142
Interest-rate sensitivity gap	(71,755)	(51,810)	(72,662)	248,578	52,351
Net worth					11,097
Ratio of interest-rate-sensitive assets to liabilities					107.47
Ratio of interest-rate sensitivity gap to net worth					471.76

December 31, 2018

Unit: USD thousand, %

Item	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$ 492,982	28,932	-	147,589	669,503
Interest-rate-sensitive liabilities	508,229	62,996	46,502	102	617,829
Interest-rate sensitivity gap	(15,247)	(34,064)	(46,502)	147,487	51,674
Net worth					3,660
Ratio of interest-rate-sensitive assets to liabilities					108.36
Ratio of interest-rate sensitivity gap to net worth					1,411.86

(iv) Profitability

Unit: %

Item		December 31, 2019	December 31, 2018
Return on total assets	Before income tax	0.41	0.18
	After income tax	0.36	0.16
Return on net worth	Before income tax	6.34	2.94
	After income tax	5.60	2.64
Profit margin		23.37	11.00

Note 1: Return on total assets = Income before (after) income tax / Average total assets

Note 2: Return on net worth = Income before (after) income tax / Average net worth

Note 3: Profit margin = Income after income tax / Total operating revenues

Note 4: Income before (after) income tax is the income for the whole year.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(v) Structure analysis of assets' and liabilities' time to maturity

1) Duration analysis in New Taiwan dollars

December 31, 2019

Unit: NTD thousand

	Total	Aging for remaining period until expiration					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days~ 1year	Over 1 year
Capital provided	\$225,001,910	24,708,328	17,442,923	14,032,950	29,446,524	35,705,644	103,665,541
Capital used	280,576,306	6,627,233	12,827,982	34,409,574	44,695,768	76,807,775	105,207,974
Spread	(55,574,396)	18,081,095	4,614,941	(20,376,624)	(15,249,244)	(41,102,131)	(1,542,433)

December 31, 2018

Unit: NTD thousand

	Total	Aging for remaining period until expiration					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days~ 1year	Over 1 year
Capital provided	\$219,789,313	28,221,543	19,154,439	15,718,501	22,922,999	41,702,632	92,069,199
Capital used	264,484,366	5,246,729	13,976,479	34,643,511	39,089,365	72,933,637	98,594,645
Spread	(44,695,053)	22,974,814	5,177,960	(18,925,010)	(16,166,366)	(31,231,005)	(6,525,446)

2) Duration analysis in US dollars

December 31, 2019

Unit: USD thousand

	Total	Aging for remaining period until expiration				
		0~30 days	31~90 days	91~180 days	181 days~ 1year	Over 1 year
Capital provided	\$ 790,746	142,778	115,808	49,392	44,571	438,197
Capital used	926,455	185,540	262,962	117,023	113,752	247,178
Spread	(135,709)	(42,762)	(147,154)	(67,631)	(69,181)	191,019

December 31, 2018

Unit: USD thousand

	Total	Aging for remaining period until expiration				
		0~30 days	31~90 days	91~180 days	181 days~ 1year	Over 1 year
Capital provided	\$ 701,798	181,865	101,123	49,063	19,847	349,900
Capital used	831,233	221,555	232,389	80,798	80,700	215,791
Spread	(129,435)	(39,690)	(131,266)	(31,735)	(60,853)	134,109

(Continued)

Bank of Panhsin
Notes to the Financial Statements

(13) Notes to disclosure items

(a) Information on significant transactions

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Publicly Held Banks":

(i) Loans to other parties: Not applicable for banking industry; Subsidiaries:

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 Item	Value	Individual funding loan limits	Maximum limit of fund financing
1	Panhsin Asset Management	Dung Ma Construction Co., Ltd.	Accounts Receivable	No	80,000	80,000	80,000	15.0 %	1	80,000	None.	8,000	None.	-	625,819	4,380,736
1	Panhsin Asset Management	Tang Hsi Construction Co., Ltd.	Accounts Receivable	No	260,166	260,166	260,166	13.5 %	1	260,166	None.	26,017	None.	-	625,819	4,380,736
1	Panhsin Asset Management	Heng He Construction Co., Ltd.	Accounts Receivable	No	141,600	141,600	141,600	12.0 %	1	141,600	None.	141,600	None.	-	625,819	4,380,736
1	Panhsin Asset Management	Tai Kun Construction Co., Ltd.	Accounts Receivable	No	370,000	-	-	6.0 %	1	-	None.	-	None.	-	625,819	4,380,736

Note 1: The explanation in the number column is as follows:

- (1) Issuer fills in 0
- (2) Invested companies are numbered sequentially starting from the Arabic number 1 according to company type.

Note 2: The quota / amount of loan to others for funds still valid.

Note 3: The capital loan and nature should be filled in:

- (1) For business correspondence fill in 1.
- (2) If necessary for short-term financing, fill in 2.

Note 4: Loans and limits for individual target funds: The limit is 1 times the net value of the latest financial report of Panhsin Asset Management..

Note 5: Limit of loaning of funds: The total amount of funds and loans is limited to 7 times the net value of the latest financial report of Panhsin Asset Management..

- (ii) Guarantees and endorsements for other parties: Not applicable for banking industry; Subsidiaries: None.
- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures): Not applicable for banking industry; Subsidiaries: None.
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD 300 million or 10% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of TWD 300 million or 10% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of TWD 300 million or 10% of the capital stock:

Name of company	Type of property	Transaction date	Acquisition date	Book value	Transaction amount	Amount actually receivable	Gain from disposal	Counter-party	Nature of relationship	Purpose of disposal	Price reference	Other terms
Bank of Panhsin Co., Ltd.	Real estate	Nov. 3, 2019	May. 24, 2017	543,740	640,000	872,500	84,274	Bora Pharmaceuticals Co., Ltd.	Non-related parties	Disposal	Pan Asia Real Estate Appraisers Firm	None

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD 50 million: None.

(Continued)

Bank of Panhsin
Notes to the Financial Statements

- (viii) Receivables from related parties with amounts exceeding the lower of TWD 300 million or 10% of capital stock: None.
- (ix) Trading in derivative instruments: Not applicable for banking industry; Subsidiaries: None.
- (x) Information regarding selling non-performing loans:
- 1) Summary table of selling non-performing loans: None.
 - 2) Selling non-performing loans by single over TWD 1 billion: None.
- (xi) Approved securitization instrument types and related information according to "asset-backed securitization" or "mortgage-backed securitization": None.
- (xii) Other material transaction items which were significant to people who use the information in the financial statements: None.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2019 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars/Thousands of shares)										
Name of investee	Investee Location	Investee's operation	Percentage of ownership	Book Value of investments	Gain(loss) recognized due the period	Aggregate shareholding of the Company and its subsidiaries				Remark
						Number of shares	Pro forma number of shares	Total		
								shares	Percentage	
Panhsin Asset Management Co., Ltd.	Banqiao City, New Taipei City	Purchasing non-performing loans; Parking business; Urban renewal financing	100.00 %	625,945	112,472	50,703	-	50,703	100.00 %	subsidiary
Panhsin International Leasing Co., Ltd.	Banqiao City, New Taipei City	Rental and leasing	100.00 %	380,662	6,089	37,187	-	37,187	100.00 %	subsidiary

(c) Information regarding investment in China: None.

(14) Operating segment information

Please refer to 2019 Chinese consolidated financial statements.

REGISTERED OFFICE OF THE ISSUER

AERKOMM INC.

923 Incline Way #39,
Incline Village, NV 89451
USA

TRUSTEE

Citicorp International Limited

20th Floor, Citi Tower, One Bay East
83 Hoi Bun Road
Kwun Tong, Kowloon
Hong Kong

REGISTRAR

**PRINCIPAL PAYING, CONVERSION AND
TRANSFER AGENT**

Citibank, N.A., London Branch

c/o Citibank, N.A.,
Dublin Branch 1 North Wall Quay
Dublin 1
Ireland

LEGAL ADVISERS

To the Initial Purchaser

as to New York and United States Securities law

K&L Gates LLP

925 Fourth Avenue, Suite 2900
Seattle, WA 98104-1158
USA

To the Trustee

as to New York law

K&L Gates

44th Floor, Edinburgh Tower, The Landmark,
15 Queen's Road Central
Hong Kong

To the Company

as to France law

To the Company

*as to California, Nevada and
United States Securities law*

To the Company

as to ROC law

Paul Hastings LLP

32, rue de Monceau,
75008 Paris
France

Bevilacqua PLLC

1050 Connecticut Avenue,
NW, Suite 500,
Washington, DC 20036
USA

Johnson and Partners

3F, No. 180, Section 2, Dunhua S.
Road., Da-an District 106,
Taipei City
Taiwan

LISTING AGENT

Allen & Gledhill LLP

One Marina Boulevard #28-00
Singapore 018989

INDEPENDENT AUDITORS

Chen & Fan Accountancy Corporation

181 Metro Drive, Suite 500
San Jose, CA 95110
USA