MPI CORPORATION

Stock Code:**6223**

# MPI Corporation

## 2019 Annual Report

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Website of the Annual Report/Market Observation Post System Website:
http://mops.twse.com.tw

I. Company spokesman and deputy spokesman:
Spokesman's Name: Qiu, Jin-Wen
Job Title: Special Assistant of the Chairman of Board
Tel. No.: 03-5551771
Email: amanda.chiu@mpi.com.tw

Deputy Spokesman's Name: Zhuang, Jie-Zhi
Title: Vice Director of the Business Division
Tel. No.: 03-5551771
Email: raymond.chuang@mpi.com.tw

II. Address of the Company's Head Office, Branch and Plant, and Tel. Nos.:
Head Office: No. 151, No. 153 & No. 155, Zhonghe Street, Zhubei City, Hsinchu County
Tel. No.: 03-5551771
2nd Plant in Zhubei: No. 129, Zhonghe Street, Zhubei City, Hsinchu County
Tel. No.: 03-5551771
Xinpu Plant: No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County
Tel. No.: 03-5551771
Hukou Plant: Building B, 1F, No. 42, Guangfu Rd., Hukou Township, Hsinchu County
Tel. No.: 03-5551771
Branch in Southern Taiwan: No. 7, Luke 1st Road, Luzhu Dist., Kaohsiung City
Tel. No.: 07-9559966

III. Shares Registrar:
Name: Hua Nan Securities Co., Ltd.
Address: 4F, No. 54, Sec. 4, Minsheng E. Road, Taipei City
Website: http://www.entrust.com.tw
Tel. No.: 02-27186425

IV. External Auditors in the most recent year:
CPA: Chen, Chih-Ling and Chen, Yi-Ling, CPAs
CPA Firm: Nexia Sun Rise CPAs & Co.
Address: 2F, No. 33, Fuxing N. Road, Taipei City
Website: http://nexia.otc.gs
Tel. No.: 02-27510306

V. Name of any exchanges where the Company's securities are traded offshore: None

VI. Company Website: http://www.mpi.com.tw

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# One. A Message to Shareholders

## I. 2019 operation in review

(I) Business Plan and Result

In FY 2019, the Group generated the net consolidated operating revenue amounting to NT$5.515 billion, which was an increase by 2% compared to NT$5.386 billion in 2018. The earnings in FY 2019 amounted to NT$428 million in 2019, an increase of 28% from NT$335 million in 2018 with earnings per share of NT$5.36.

In consideration of COVID-19 spreading internationally, SEMI adjusted the forecast output value downward from 7.7% to 5% YoY this year. Meanwhile, it also adjusted the industry's capital expenditure downward. The epidemic also resulted in the sluggish demand for consumable electronic products. Most companies in the same industry believe that the output value of the whole semiconductor industry is still likely to be adjusted downward.

Permanently, the semiconductor industry has been identified as a leader in the global technological development. Though the demand in the whole semiconductor industry is interrupted by COVID-19 prevailing all over the world temporarily, and affected to a certain extent. Notwithstanding, in terms of the industrial development, most of the research institutions believe that the semiconductor industry will keep growing stably, primarily driven by 5G communications, AI, self-driving cars, IoT, and increase in the market share of the semiconductor industry in China.

The high computing capability required by said emerging technologies, such as 5G, AI and IoT, needs to rely on the advanced process of the semiconductor to improve the overall performance of end application products. The advanced process of the semiconductor also lays the sound demand for advanced probe cards. MPI Corporation insists on investing the high R&D momentum to keep developing the advanced probe cards, with the expectation to enhance its own competitiveness in the high-end market and peripheral and key components and also improve the customized service and flexibility for its customers. As for the self-manufactured machines, the Company expects to have continuous growth in the semiconductor engineering machine and temperature testing machine.

(II) Revenue and profitability analysis

Currency unit: in NTD thousands

| Item \ Year | | | 2018 | 2019 | Change (%) |
|---|---|---|---|---|---|
| Revenue | Net Sales | | 5,386,356 | 5,515,200 | 2.39% |
| | Gross profit | | 2,140,251 | 2,228,901 | 4.14% |
| | Profit or loss after tax | | 334,562 | 428,370 | 28.04% |
| Profitability | ROA (%) | | 4.48 | 5.48 | 22.32% |
| | ROE (%) | | 8.55 | 10.07 | 17.78% |
| | Operating Income to Paid-in capital ratio (%) | | 40.46 | 59.69 | 47.53% |
| | EBT to Paid-in capital ratio (%) | | 49.76 | 61.16 | 22.91% |
| | Net profit margin (%) | | 6.27 | 7.76 | 23.76% |
| | EPS (NT$) | before retroactive adjustment | 4.19 | 5.36 | 27.92% |
| | | after retroactive adjustment | 4.19 | 5.36 | 27.92% |

(III) Research and development

Research and development findings in 2019:

1. Photoelectric precision automated equipment:
   (1) Mini LED and Micro LED wafer photoelectric probing system.
   (2) Wafer level probing system with high power Flip-chip type Laser Diode and VCSEL.
   (3) High-solution VCSEL wafer-level AOI system.
   (4) Photo-diode multi-color responsive wafer-level measuring system.
2. Wafer probe card:
   (1) The Company continues to develop the vertical type fine-pitch probe card to meet the need for fine-pitch technology of miniaturization of IC process.
   (2) To meet the technology requirement for high-speed transmission of smart devices, the Company continues to improve the high-speed probe card to satisfy customers' need for more high-speed transmission.
3. Semi-conductor component temperature testing series:
   In response to customers' needs for different testing conditions, the Company develops the product series to satisfy the customers' needs optimally.
4. Semi-conductor engineering testing machine series:
   Develop the full automatic wafer prober for engineering purpose successfully to support the automatic scheduling of the test on different sized wafers and provide users with an environment in which they may operate the test more conveniently, flexibly, safely, and precisely.

## II. Summary of 2020 Business Plan

(I) Operational guidelines

Technology is essential to maintain competitiveness. In light of the development of the microelectronic industry and technology requirements in the future, MPI Corporation undertakes the following strategic planning and commits its effort to sustain its competitive advantage:

1. In response to demand of high performance computing, the Company continues to develop high current withstanding probe cards.
2. To satisfy the evolution of advanced IC scaling, the Company continues to develop and improve the fine-pitch probe card technology.
3. To meet the technology requirement for high-speed transmission of smart devices, we constantly develop probe cards with higher speed.
4. The Company keeps optimizing the multi-layer organic substrate process technology in response to the technical demand for higher specification applications in the future and strengthen the competitiveness of probe card products.
5. For the photonics automation industry, the Company focuses on four industrial fields including optical communication, sensing, micro display and LED to offer automated equipment with high optical, mechanical and electrical integration for measurement, sorting and optical inspection. By deepening the cooperation with customers leading the global technology, the Company adopts the supply of high value-added Turnkey Solution for the photoelectric industry as its main development goal.
6. Regarding the application of the temperature control system for the environmental test of the semiconductor and fiber optics communication components, the Company continues to develop the best products that correspond to different testing temperature ranges applicable to mass production and engineering, in order to provide customers with the best temperature testing solution.
7. In the application field of semiconductor engineering testing, the Company continues to optimize the full automated functions, adopts the modular design concept to satisfy customers' need for phased upgrading, and keeps adding adequate functions to various models subject to the customers' application.

(II) Vital production and sales policies

Looking forward to 2020, the Company will adopt the following policies:

1. Constantly invest in the R&D capacities and enhance the competitiveness of products.
2. Define the blueprint of technology in line with the application trend in the market to implement the R&D technology in new products rapidly and precisely for the purpose of business expansion.
3. The Company will strengthen the support capacity of its overseas business locations to provide a more rapid and comprehensive technical service for the customers and further

increase the market share of its products.

4. The Company will uphold the core philosophy of assisting its customers to upgrade their competitiveness and thereby positions the Company as technology partners of its customers. Also, the Company's main production and sales policy focuses on the customers' future demand to jointly develop the most suitable products and provide in-time technical services. Therefore, the Company may offer the best solution for its customers.

## III. The development strategy of the future

(I) Based on the five major technical areas including prober, sorting, photoelectric testing, imaging detection and automated equipment, provide complete testing application solutions to meet the need for mass production of the photoelectric and semi-conductor industries.

(II) In the application field of semiconductor engineering testing, the Company strengthens the competitiveness of products via the core technologies, such as micro-signal, high-frequency and high power measurement, and by continuing to enhance and integrate various testing systems.

(III) In the application of the temperature control, the Company continues to develop the markets in the areas of semiconductor and fiber optics communications. In the meantime, the Company will use the core technology for temperature control to develop the application of temperature test of other components to increase the product application range.

(IV) In response to the constant demand of the end consumption for higher performance computing, faster transmission, various functions and power saving and the rising market of intelligent technology application, we develop fine-pitch probe card as well as the high pin count and high speed probe card to upgrading the frequency in testing and efficiency for the customer needs to ensure our competitiveness.

## IV. The effect of the external competitive, legal and macroeconomic environment

Given the sluggish demand caused by COVID-19 spreading internationally, most research institutions have downward adjusted their forecast about output value of the semiconductor industry this year. It is also believed that the demand is still likely to be adjusted downward again. In the most recent years, the global economy has been full of highly uncertain factors. Notwithstanding, following the evolution of technology to 5G application, self-driving cars, AI, and industrial automation resulting in the IOT development and booming demand for automobile electronics, the Company continues to boost the growth of the semiconductor industry. With profound R&D capabilities, the Company continues to expect itself to provide its customers with the most comprehensive and precise testing service in the semiconductor process and to maintain its leading role in the industry while bringing the greatest investment value to its shareholders.

# Two. Introduction to Company

## I. Introduction to Company

(I) Date of incorporation: July 25, 1995.

(II) Company profile

| | |
|---|---|
| July 1995 | MPI Corporation was incorporated with the capital of NT$5 million. |
| July 1996 | Maintenance technology of Micronics Japan Co., Ltd. (“MJC”) was transferred to MPI. |
| September 1996 | Reorganized to incorporate MPI Corporation |
| December 1997 | MJC technical guidance and training started. |
| March 1998 | MJC technical guidance and training ended. |
| October 1998 | Due to the capital increase in cash by NT$55 million, the capital became NT$60 million. |
| October 1998 | MJC 8 DUT completed the technology transfer and official invested in MPI Corporation. |
| December 1998 | Possessed the ability to maintain 32 DUT |
| March 1999 | Possessed the ability to produce Fine pitch (50μm) |
| June 1999 | Possessed the MJC 8 DUT New Design ability |
| April 2000 | Bldg. A of 1st Plant in Zhubei completed and activated |
| July 2000 | Southern Taiwan Office and Customers Service Center established |
| July 2000 | Due to the capital increase in cash and upon recapitalization of earnings, totaling NT$40 million, the capital became NT$100 million. |
| December 2000 | Possessed the MJC 16 DUT Production & New Design ability. |
| December 2000 | MPI TRADING CORP. incorporated with the registered capital US$1 million. |
| May 1991 | Semi-auto prober released for LED wafer probing. |
| May 1991 | Due to capital increase in cash and by recapitalization of earnings and employee bonus, totaling NT$100 million, the capital became NT$200 million. |
| July 1991 | Proceed with the public offering upon approval of Securities and Futures Bureau, Ministry of Finance. |
| August 1991 | Incorporated MMI HOLDING CO., LTD. with registered capital of NT$10 million. |
| September 1991 | Pass ISO9001/2000 certification |
| December 1991 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the first time. |
| June 2002 | Due to succession to the shares of Chain-Logic International Corp. totaling NT$50 million and capital increase by recapitalization of earnings and employee bonus, totaling NT$50 million, the capital became NT$300 million. |
| July 2002 | Apply for registration of TPEx listed stock. |
| July 2002 | Ranked 8th place among the “Top 100 Small-Sized and Medium-Sized Enterprises with Potential” selected by CommonWealth. |
| August 2002 | Trade stock in TPEx, and apply for TPEx listed stock. |
| October 2002 | Applied for TPEx listed stock approved by Securities Listing Review Committee of TPEx. |
| January 2003 | MPI stock traded in TPEx as the general class stock as of January 6, 2003. |
| January 2003 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the second time. |
| July 2003 | Ranking 8th place for EPS among the “Top 100 Small-Sized and Medium-Sized Enterprises with Potential” selected by CommonWealth. |

| | |
|---|---|
| July 2003 | Applied for approval of the plan on the development of new leading products “semi-conductor components analysis platform” with Industrial Development Bureau. |
| August 2003 | Trial mass production by vertical type probe card. |
| October 2003 | Bldg. B of 1st Plant in Zhubei completed and activated. |
| April 2004 | Offered the 1st domestic unsecured convertible corporate bond totaling NT$250 million. |
| May 2004 | The application for stationing in Luchu Science Park was passed by the Luchu Science Park Review Committee. |
| June 2004 | Bldg. C of 1st Plant in Zhubei completed and activated. |
| March 2005 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the third time. |
| April 2005 | Southern Taiwan Branch (1st Plant in Luchu) completed and activated. |
| June 2005 | Family Day and Charity Carnival for 10th anniversary celebration. |
| June 2005 | Ranking 7th place for EPS of technology index TWSE/TPEx stock, 5th place for profit ratio and 7th place for return on equity (ROE) among the “TOP 100 Technological Companies in Taiwan” selected by CommonWealth in 2004. |
| September 2005 | Conferred the Industrial & Technological Development - Excellent Enterprise Innovation Award of 13th Term by MOEA. |
| November 2005 | Employee dormitory completed and activated. |
| December 2005 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the fourth time. |
| May 2006 | Received the approval letter for incorporation of Southern Taiwan Branch of MPI from MOEA. |
| September 2006 | Listed as one of the candidates under the “Leading New product Development Guidance Plan - Special Report for 12 Candidates”. |
| November 2006 | Applied for approval of the plan on the new leading products “RFID Automatic Flip Chip Bonder” with Industrial Development Bureau. |
| February 2007 | Offer the domestic 2nd unsecured convertible corporate bond totaling NT$400 million. |
| March 2007 | 2nd Plant in Luchu, Kaohsiung completed and activated. |
| June 2007 | Applied for approval of the plan on the new leading products “Advanced Micro Electro Mechanical SoC Probe Card” with Industrial Development Bureau. |
| January 2008 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the fifth time. |
| December 2008 | Listed in the middle-sized enterprise rating among the “Top 73 Companies Which Make Most Money for Shareholders” selected by Global View Monthly. |
| February 2009 | Taiwan Intellectual Property Office announced MPI as “2008 top 100 local innovative companies”. |
| March 2009 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the sixth time. |
| June 2009 | Applied for approval of the plan on the development of new leading products “semi-conductor high-frequency components probe card for probing” with Industrial Development Bureau. |
| December 2009 | Received the approval letter for the “Newly Emerging, Important and Strategic Industries” from Industrial Development Bureau, MOEA for the seventh time. |
| September 2010 | Invested 900 million won in MEGTAS CO., LTD. |
| March 2011 | Capital increase of MEGTAS CO., LTD. by 300 million won. |
| March 2012 | Capital increase of MEGTAS CO., LTD. by 300 million won. |
| May 2012 | 2nd Plant in Zhubei completed and activated. |
| October 2012 | Honored as “Deloitte Technology Fast500 Asia Pacific 2012” |

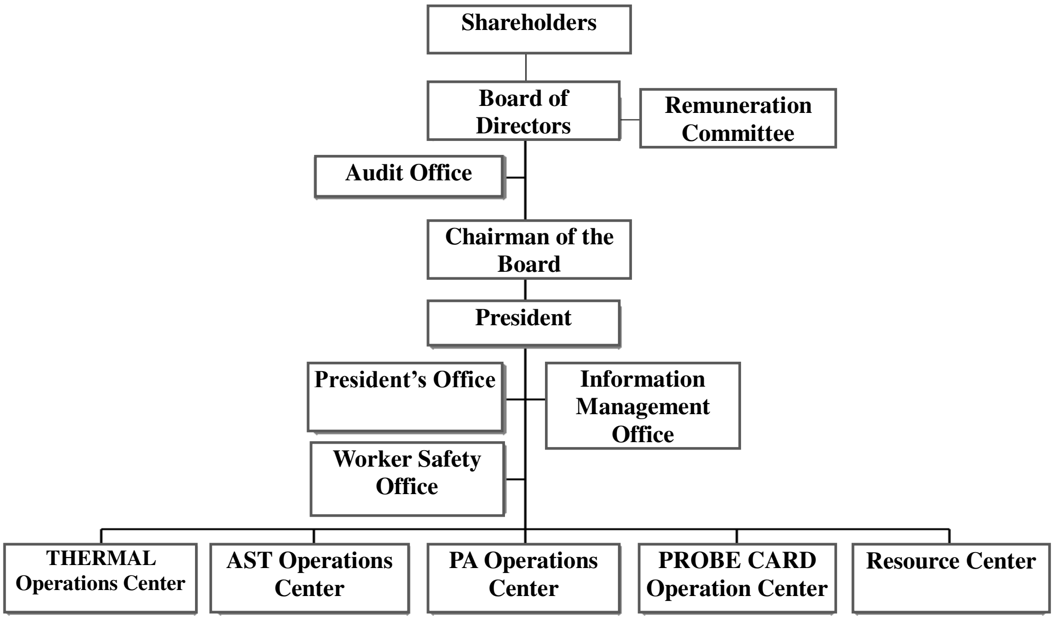
| | |
|---|---|
| February 2013 | Taiwan Intellectual Property Office announced MPI ranking at 88th place among the “2012 top 100 local companies which apply for patent”. |
| April 2013 | Awarded in the 2nd “Taiwan Mittlestand Award”. |
| May 2013 | Ranking at 7th place in the “Global Probe Card Suppliers’ Billboard Published by VLSI Research Inc. in 2012” |
| May 2013 | Ranking at 4th place in the best sub-system suppliers investigated by VLSI Research 2012 |
| January 2014 | Named as one of the 69 potential medium-sized enterprises in the 2nd Taiwan Mittelstand Award by Ministry of Economic Affairs |
| January 2014 | Reinvested US$4 million in Lumitek (Changchou) Co. Ltd. |
| February 2014 | Taiwan Intellectual Property Office announced MPI ranking at 67th place among the “2013 top 100 local companies which apply for patent”. |
| March 2014 | Re-invested NT$50 million in Allstron Corporation. |
| April 2014 | Ranked at 5th place in the global probe card suppliers’ billboard in 2013 (by VSL Research). |
| September 2014 | Purchased Xinpu Plant. |
| November 2014 | Offered the 3rd domestic convertible corporate bond totaling NT$700 million. |
| November 2014 | United family day of 20th anniversary. |
| February 2015 | Taiwan Intellectual Property Office announced MPI ranking at 79th place among the “2014 top 100 local companies which apply for patent”. |
| February 2015 | Reinvested US$7.5 million in Lumitek (Changchou) Co. Ltd. |
| April 2015 | VLSI Research Inc. announced MPI ranking 1st place in the market of Epoxy/Cantilever Probe Cards in the world in 2014. |
| April 2015 | VLSI Research Inc. announced MPI ranking 4th place in the market of vertical type probe cards in the world in 2014. |
| April 2015 | VLSI Research Inc. announced MPI ranking at 5th place in the global probe card suppliers’ billboard in 2014. |
| August 2014 | Reinvested US$600,000 in Lumitek (Changchou) Co. Ltd. |
| November 2015 | Reinvested US$2.9 million in Lumitek (Changchou) Co. Ltd. |
| February 2016 | Taiwan Intellectual Property Office announced MPI ranking at 65th place among the “2015 top 100 local companies which apply for patent”. |
| December 2016 | Reinvested US$1 million in Lumitek (Changchou) Co. Ltd. |
| February 2017 | Taiwan Intellectual Property Office announced MPI ranking at 65th place among the “2016 top 100 local companies which apply for a patent” and 94th place among the “2016 top 100 local companies which apply for invention patent”. |
| April 2017 | Awarded in the 4th “Taiwan Mittlestand Award”. |
| April 2017 | VLSI Research announced MPI ranking 1st place in the global market of Epoxy/Cantilever Probe Cards in the world in 2016. |
| | VLSI Research announced MPI ranking 1st place in the global market of vertical type probe cards in the world in 2016. |
| | VLSI Research Inc. announced MPI ranking at 5th place in the global probe card suppliers’ billboard in 2016. |
| May 2017 | Established MPA TRADING CORP. for USD 1.25 million. |
| May 2017 | Invested MPI AMERICA INC. for USD 1.2 million. |
| September 2017 | Invested MPI Corporation (Suzhou) for USD 2 million. |
| February 2018 | Taiwan Intellectual Property Office announced MPI ranking at 65th place among the “2017 top 100 local companies which apply for patent” and 76th place among the “2017 top 100 local companies which apply for invention patent”. |
| May 2018 | VLSI Research announced MPI ranking 1st place in the global market of |

| | |
|---|---|
| | Epoxy/Cantilever Probe Cards in the world in 2017. |
| | VLSI Research announced MPI ranking 2nd place in the global market of vertical type probe cards in the world in 2017. |
| | VLSI Research Inc. announced MPI ranking at 5th place in the global probe card suppliers' billboard in 2017. |
| August 2018 | Offered the 4th domestic convertible corporate bond totaling NT$1,001 million. |
| October 2018 | Capital increase of MEGTAS CO., LTD. by 500 million won. |
| April 2019 | VLSI Research announced MPI continuously ranking 1st place in the global market of Epoxy/Cantilever Probe Cards in the world in 2018. |
| | VLSI Research announced MPI continuously ranking 2nd place in the global market of vertical type probe cards in the world in 2018. |
| | VLSI Research announced MPI continuously ranking at 5th place in the global probe card suppliers' billboard in 2018. |
| April 2020 | VLSI Research announced MPI continuously ranking 1st place in the global market of Epoxy/Cantilever Probe Cards in the world in 2019. |
| | VLSI Research announced MPI continuously ranking 1st place in the global market of vertical type probe cards in the world in 2019. |
| | VLSI Research announced MPI continuously ranked in 5th place on the global probe card suppliers' billboard in 2019. |

# Three. Corporate Governance Report

## I. Organization structure

(I) Organizational structure




(II) Operations and functions

| | |
|---|---|
| Audit Office | Responsible for processing the audit, maintenance, improvement and suggest under the internal control system throughout the Company, and helping various units resolve problems, take corrective actions and upgrade efficiency. |
| President's Office | Help the President with the management planning and control over various departments' functions and implementation thereof, in order to achieve the business goals. |
| Information Management Office | Responsible for computerization, access to network, emails, and planning and configuration of Internet throughout the Company. |
| Worker Safety Office | Responsible for safety and hygiene management and healthcare promotion for employees. |
| THERMAL Operation Center | R&D, manufacturing and selling of the Thermal Air series products of the Company, provision of the temperature testing equipment that the customer needs for manufacturing or experiment.<br>Our customers come from the semi-conductor, optical communication, photoelectric, automobile and aerospace industries. Our products are available around the globe. |
| AST Operation Center | Responsible for planning, development, manufacturing, selling and after service of the engineering probing system and radio-frequency probe. |
| PA Operation Center | Development of new equipment product, technology application, manufacturing and assembling. Quality inspection and control of the raw materials and equipment products.<br>Information collection of the market demands of automated photoelectric equipment. Achievement of operational goals. |
| PROBE CARD Operation Center | Responsible for research, development, design, manufacturing, selling and after service of the probe card products. |

| | |
|---|---|
| Resource Center | Responsible for the finance, accounting, stock and tax affairs of the Company. Procurement of raw materials. Human resources/labor and legal matters. Administrative management, general affairs and plant affairs. |

## II. Information about Director, Supervisor, President, Vice President, Assistant Vice President, and Head of Department and Branch:

1. Directors & supervisors:

Information about directors & supervisors (1); Unit: April 30, 2020, share; %

| Job title | Nationality or place of registration | Name | Gender | Election (Appointment) Date | Term of office | Inauguration Date | Shares held at election | | Current shareholding | | Current Shares Held by Spouse and Children of Minor Age | | Shareholding Under the Name of A Third Party | | Major (Academic Degree) Experience | Job title(s) Held Concurrently in the Company and in any Other Company | Other Chiefs, Supervisors or Directors with Spouses, or Relatives Within the Second Degree of Kinship | | | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Proportion of shareholding | Shares | Proportion of shareholding | Shares | Ratio of shareholding | Shares | Ratio of shareholding | | | Job title | Name | Relationship | |
| Chairman | R.O.C. | MPI Investment Co., Ltd. | - | June 13, 2017 | 3 years | April 16, 2001 | 8,334,626 | 10.42% | 8,334,626 | 10.42% | 0 | 0.00% | 0 | 0.00% | None | None | None | None | None | None |
| | | Representative--Ko, Chang-Lin | Male | June 13, 2017 | 3 years | July 11, 2016 | 1,425,994 | 1.78% | 1,425,994 | 1.78% | 427,781 | 0.54% | 0 | 0.00% | Academic degree: EMBA, College of Management, National Chiao Tung University<br>Major experience: Electronics Research & Service Organization, Industrial Technology Research Institute | This Company: CEO<br>Other companies: Chairman of Chain-Logic International Corp., MPI Investment Co., Ltd., MMI HOLDING CORP., MPI TRADING CORP., CHAIN-LOGIC TRADING CORP., MPA TRADING CORP. and Gordon Biersch Restaurant & Brewery, and Director of Kopitiam. | None | None | None | None |
| Director | R.O.C. | MPI Investment Co., Ltd. | - | June 13, 2017 | 3 years | April 16, 2001 | 8,334,626 | 10.42% | 8,334,626 | 10.42% | 0 | 0.00% | 0 | 0.00% | None | None | None | None | None | None |
| | | Representative--Steve Chen | Male | June 13, 2017 | 3 years | August 1, 2012 | 230,283 | 0.29% | 230,283 | 0.29% | 0 | 0.00% | 0 | 0.00% | Academic degree: National Taiwan University, Department of Mechanical Engineering, Master Program<br>Major experience: Material and Chemical Research Laboratories, Industrial Technology Research Institute | This Company: Consultant<br>Other companies: Director of Chain-Logic International Corp., Director of MPI Investment Co., Ltd., and Director of Allstron Corporation | None | None | None | None |
| Director | R.O.C. | MPI Investment Co., Ltd. | - | June 13, 2017 | 3 years | April 16, 2001 | 8,334,626 | 10.42% | 8,334,626 | 10.42% | 0 | 0.00% | 0 | 0.00% | None | None | None | None | None | None |
| | | Representative--Scott Kuo | Male | June 13, 2017 | 3 years | November 26, 2012 | 438,037 | 0.55% | 438,037 | 0.55% | 1,179 | 0.00% | 0 | 0.00% | Academic degree: University of South Florida, Department of Mechanical Engineering, Master Program<br>Major experience: Mechanical and Systems Research Laboratories, Industrial Technology Research Institute | This Company: President<br>Other companies: Director of Chain-Logic International Corp., Supervisor of MPI Investment Co., Ltd., Chairman of Allstron Corporation, and Chairman of Lumitek (Changchou) Co. Ltd. | None | None | None | None |

Information about directors & supervisors (1); Unit: April 30, 2020, share; %

| Job title | Nationality or place of registration | Name | Gender | Election (Appointment) Date | Term of office | Inauguration Date | Shares held at election | | Current shareholding | | Current Shares Held by Spouse and Children of Minor Age | | Shareholding Under the Name of A Third Party | | Major (Academic Degree) Experience | Job title(s) Held Concurrently in the Company and in any Other Company | Other Chiefs, Supervisors or Directors with Spouses, or Relatives Within the Second Degree of Kinship | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Proportion of shareholding | Shares | Proportion of shareholding | Shares | Ratio of shareholding | Shares | Ratio of shareholding | | | Job title | Name | Relationship | |
| Independent director | R.O.C. | Hsu, Mei-Fang | Female | June 13, 2017 | 3 years | April 16, 2001 | 244,441 | 0.31% | 244,441 | 0.31% | 10,050 | 0.01% | 0 | 0.00% | Academic degree: Ming Chuan University, Accounting Department<br>Major experience: Baker Tilly Clock & CO | This Company: None<br>Other companies: Responsible person of GREAT ASIA CAPS AND COMPANY; supervisor of 104 Corporation | None | None | None | None |
| Independent director | R.O.C. | Kao, Chin-Cheng | Male | June 13, 2017 | 3 years | April 16, 2001 | 162,414 | 0.20% | 162,414 | 0.20% | 17,944 | 0.02% | 0 | 0.00% | Academic degree: Department of Law, National Chung Hsing University<br>Major experience: Hui Lin Law Office | This Company: None<br>Other companies: Attorney-at-law in Lian Cheng Law Office | None | None | None | None |
| Supervisor | R.O.C. | Li, Tu-Cheng | Male | June 13, 2017 | 3 years | April 16, 2001 | 599,349 | 0.75% | 539,349 | 0.67% | 414 | 0.00% | 0 | 0.00% | Academic degree: Feng Chia University, Department of Business Administration<br>Major experience: Chain-Logic International Corp. | This Company: None<br>Other companies: Chairman of Zen Voce Corporation, Chairman of Chen Ho Investment Ltd., Chairman of Zan Hong Industrial Co., Ltd., Director of Zen Voce Precision Equipment (Suzhou) Ltd., and Chairman of Zen Voce(Pg)Sdn.Bhd, and Chairman of Zen Voce Manufacturing Pte Ltd. | None | None | None | None |
| Supervisor | R.O.C. | Liu, Fang-Sheng | Male | June 13, 2017 | 3 years | April 16, 2001 | 255,471 | 0.32% | 255,471 | 0.32% | 0 | 0.00% | 0 | 0.00% | Academic degree: Kaohsiung Medical University, School of Dentistry<br>Major experience: Taipei City Hospital | This Company: None<br>Other companies: Dentist, Li Cheng Dental Clinic | None | None | None | None |
| Supervisor | R.O.C. | Tsai, Chang-Shou | Male | June 13, 2017 | 3 years | June 20, 2003 | 21,630 | 0.03% | 21,630 | 0.03% | 0 | 0.00% | 0 | 0.00% | Academic degree: Chinese Culture University, Department of Accounting<br>Major experience: Bureau of Accounting & Statistics, Provincial Government of Taiwan | This Company: None<br>Other companies: Practicing CPA of Shang Ho CPA Office; supervisor of Kung Long Batteries Industrial Co., Ltd. | None | None | None | None |

2. For director or supervisor who acts as a corporate shareholder's representative, please specify the major shareholders of the corporate shareholder.

April 30, 2020

| Name of the corporate shareholder | Major shareholders of the corporate shareholder | Ratio of shareholding |
|---|---|---|
| MPI Investment Co., Ltd. | Ko, Chang-Lin | 40.76% |
| | Li, Tu-Cheng | 27.17% |
| | Steve Chen | 9.06% |
| | Cai, Shu-Jin | 6.34% |
| | Yeh, Chi-Wen | 4.07% |
| | Hsieh, Wei-Yun | 3.60% |
| | Scott Kuo | 2.68% |

3. Information about directors & supervisors

## Information about directors & supervisors (2):

April 30, 2020

| Name (Note 1) | Qualification | More than five (5) years of experience and the following professional qualifications | | | Status of independence (Note 2) | | | | | | | | | | | | Number of public companies where the person holds the title as independent director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities. | Pass the qualification examination with proper licensing by the national Government Apparatus as court judge, prosecutor, lawyers, certified public accountant or other professional designations required by the business of the Company. | Required Work experience in commerce, law, finance, accounting or others required by the Company. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Chairman | MPI Investment Co., Ltd. Representative--Ko, Chang-Lin | | | ✓ | | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Director | MPI Investment Co., Ltd. Representative--Steve Chen | | | ✓ | | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Director | MPI Investment Co., Ltd. Representative--Scott Kuo | | | ✓ | | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Independent director | Hsu, Mei-Fang | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Independent director | Kao, Chin-Cheng | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Supervisor | Liu, Fang-Sheng | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Supervisor | Li, Tu-Cheng | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Supervisor | Tsai, Chang-Shou | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |

Note 1: The field is adjustable to the required space.

Note 2: Respective directors and supervisors who meet the following qualifications two (2) years before assumption of office and at the time of assumption office shall put a "✓" in the appropriate space.

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

(2) Not a Director or Supervisor of the Company or any of its affiliates (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, or any subsidiary of the same parent company which have been appointed in accordance with the Act, or laws of the registered country).

(3) Not a natural person, spouse, underage children, or under the title of a third party represented 1% holds more than 1% of the outstanding shares issued by the Company or among the top 10 natural person shareholders.

(4) Not a spouse, relative within 2nd degree of kinship, or lineal relative by blood within 3rd degree of kinship or closer to the managers described in Item (1) or persons described in the Item (2) and Item (3).

(5) Not a Director, Supervisor, or employee of any institutional shareholder that has 5% or higher of the total shares issued by the Company, or of top-5 institutional shareholders of the Company, or the institutional shareholders who appoint their representatives to serve as the Director or Supervisor of the Company in accordance with Paragraph 1 or Paragraph 2 of Article 27 of the Company Act (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, or any subsidiary of the same parent company which have been appointed in accordance with the Act, or laws of the registered

country).

(6) Not a director, supervisor or employee of any company controlled by the same person that holds a majority of the directors or voting shares of the Company (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, which have been appointed in accordance with the Act, or laws of the registered country).

(7) Not a director, supervisor or employee of any company who is the same person as, or the spouse of, Chairman and President or equivalent of the Company (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, or any subsidiary of the same parent company which have been appointed in accordance with the Act, or laws of the registered country).

(8) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any companies or institutions that have financial or business relationship with the Company (this restriction does not apply to any specific company or organization which holds more than 20% but less than 50% of the total shares issued by the Company that is an independent director in the Company, its parent company or subsidiary, or any subsidiary of the same parent company who has been appointed in accordance with the Act, or laws of the registered country).

(9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the Company or any affiliated company of the Company, or that provides commercial, legal, financial, accounting or related services to the Company or any affiliated company of the Company for which the provider in the past 2 years has received cumulative compensation not exceeding NT$500,000, or a spouse thereof, provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) Not a spouse to or second degree kin under the Civil Code to any other director.

(11) Not under any of the categories stated in Article 30 of the Company Act.

(12) No Government Apparatus agency, juristic person or its representative is elected under Article 27 of the Company Act.

(IV) Information concerning the president, vice presidents, assistant vice presidents, and department and branch managers:

Unit: April 30, 2019, share; %

| Job title | Nationality | Name | Gender | Election (Appointment) Date | Shareholding | | Current Shares Held by Spouse and Children of Minor Age | | Shareholding Under the Name of A Third Party | | Major (Academic Degree) Experience | Holding positions in other companies at present | Managers Within the Second Degree of Kinship | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Ratio of shareholding | Shares | Ratio of shareholding | Shares | Ratio of shareholding | | | Job title | Name | Relationship | |
| President | R.O.C. | Scott Kuo | Male | June 16, 2010 | 438,037 | 0.55% | 1,179 | 0.00% | 0 | 0.00% | Academic degree: University of South Florida, Department of Mechanical Engineering, Master Program<br>Major experience: Mechanical and Systems Research Laboratories, Industrial Technology Research Institute | Director of Chain-Logic International Corp.<br>Supervisor of MPI Investment Co., Ltd.<br>Chairman of Allstron Corporation<br>Chairman of Lumitek (Changchou) Co. Ltd. | None | None | None | None |
| Vice General Manager of the Equipment Operation Center | R.O.C. | Fan, Wei-Ju | Male | July 1, 2008 | 75,034 | 0.09% | 244 | 0.00% | 0 | 0.00% | Academic degree: National Chiao Tung University, the Institute of Electrical and Control Engineering<br>Major experience: Mechanical and Systems Research Laboratories, Industrial Technology Research Institute | None | None | None | None | None |
| Marketing Vice President | R.O.C. | Liu, Yung-Chin | Male | June 20, 2011 | 20,211 | 0.03% | 0 | 0.00% | 0 | 0.00% | Academic degree: PhD, National Cheng Kung University, Department of Aeronautics and Astronautics<br>Major experience: Mechanical and Systems Research Laboratories, Industrial Technology Research Institute | Director of Allstron Corporation | None | None | None | None |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Finance Officer | R.O.C. | Tang, Fu-Ping | Male | May 7, 2019 | 0 | 0 | 0 | 0 | 0 | 0 | Academic degree: Graduate Institute of Banking and Finance, National Chung Cheng University (PHD)<br>Major experience: G-TECH Optoelectronics Corporation | None | None | None | None | None |
| Accounting officer | R.O.C. | Rose Jao | Female | March 9, 2007 | 72,251 | 0.09% | 0 | 0.00% | 0 | 0.00% | Academic degree: Mingshin University of Technology and Science, Department of Business Administration<br>Major experience: Topco Quartz products Co., Ltd. | Supervisor of Chain-Logic International Corp.<br>Supervisor of Allstron Corporation<br>Supervisor of Lumitek (Changchou) Co. Ltd.<br>Supervisor of MPI Corporation (Suzhou) | None | None | None | None |
| Vice Director of the Southern Manufacturing Division | R.O.C. | Wang, Jian-Ming | Male | November 14, 2016 | 5,000 | 0.01% | 6,210 | 0.01% | 0 | 0.00% | Academic degree: Department of Mechanical Engineering, Nanya Institute of Technology<br>Major experience: Yi Jia Industrial | None | None | None | None | None |

## (V) Remuneration to directors, supervisors, presidents and vice presidents of the Company in the most recent year:

### 1. Remuneration to directors and independent directors

December 31, 2019; Currency unit: NTD thousand

| Job title | Name | Remuneration to directors: Remuneration (A): The Company | Remuneration to directors: Remuneration (A): All companies included into the financial statement. | Remuneration to directors: Pension (B): The Company | Remuneration to directors: Pension (B): All companies included into the financial statement. | Remuneration to directors: Remuneration to directors (C): The Company | Remuneration to directors: Remuneration to directors (C): All companies included into the financial statement. | Remuneration to directors: Business execution fee (D): The Company | Remuneration to directors: Business execution fee (D): All companies included into the financial statement. | The total amount of A, B, C and D in net income after tax (%): The Company | The total amount of A, B, C and D in net income after tax (%): All companies included into the financial statement. | Remuneration in the capacity as employees: Salaries, bonus and special subsidies (E): The Company | Remuneration in the capacity as employees: Salaries, bonus and special subsidies (E): All companies included into the financial statement. | Remuneration in the capacity as employees: Pension (F): The Company | Remuneration in the capacity as employees: Pension (F): All companies included into the financial statement. | Remuneration to employees (G): The Company: Cash Amount | Remuneration to employees (G): The Company: Stock dividends | Remuneration to employees (G): All companies included into the financial statement.: Cash Amount | Remuneration to employees (G): All companies included into the financial statement.: Stock dividends | The sum of A, B, C, D, E, F and G to Earnings after Tax (%): The Company | The sum of A, B, C, D, E, F and G to Earnings after Tax (%): All companies included into the financial statement. | Remuneration from investees beyond subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chairman | MPI Investment Co., Ltd. Representative: Ko, Chang-Lin | 0 | 0 | 0 | 0 | 3,720 | 3,720 | 0 | 0 | 0.88% | 0.88% | 10,585 | 10,585 | 216 | 216 | 474 | 0 | 474 | 0 | 3.50% | 3.50% | None |
| Director | MPI Investment Co., Ltd. Representative: Steve Chen | | | | | | | | | | | | | | | | | | | | | |
| Director | MPI Investment Co., Ltd. Representative: Scott Kuo | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Hsu, Mei-Fang | 0 | 0 | 0 | 0 | 2,480 | 2,480 | 80 | 80 | 0.60% | 0.60% | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.60% | 0.60% | None |
| Independent Director | Kao, Chin-Cheng | | | | | | | | | | | | | | | | | | | | | |

1. Please state the policies, systems, standards, and structure of remuneration to independent directors, and the relations between the remuneration and the job responsibility, risk and engagement hours borne by the independent directors The remunerations to the Company's independent directors are reviewed by Remuneration Committee according to the Articles of Incorporation, by taking into consideration their level of participation and contribution to the operatio the Company with reference to domestic and international industry standard, and shall be discussed and resolved by the Board of Directors.
2. Remuneration received by directors for providing service to any company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: None

Breakdown of Remuneration

<table>
<tr><th rowspan="3">Breakdown of remuneration paid to each director</th><th colspan="4">Name of Director</th></tr>
<tr><th colspan="2">The sum of (A+B+C+D)</th><th colspan="2">The sum of (A+B+C+D+E+F+G)</th></tr>
<tr><th>The Company</th><th>All companies included in the financial statement (I)</th><th>The Company</th><th>All companies included in the financial statement (J)</th></tr>
<tr><td>Below 1,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">1,000,000 (inclusive) ~ 2,000,000 (exclusive)</td><td>Directors:<br>Representative of MPI Investment Co., Ltd.: Ko, Chang-Lin<br>Representative of MPI Investment Co., Ltd.: Steve Chen<br>Representative of MPI Investment Co., Ltd.: Scott Kuo</td><td>Directors:<br>Representative of MPI Investment Co., Ltd.: Ko, Chang-Lin<br>Representative of MPI Investment Co., Ltd.: Steve Chen<br>Representative of MPI Investment Co., Ltd.: Scott Kuo</td><td rowspan="2">Independent directors:<br>Hsu, Mei-Fang and Kao, Chin-Cheng</td><td rowspan="2">Independent directors:<br>Hsu, Mei-Fang and Kao, Chin-Cheng</td></tr>
<tr><td>Independent directors:<br>Hsu, Mei-Fang and Kao, Chin-Cheng</td><td>Independent directors:<br>Hsu, Mei-Fang and Kao, Chin-Cheng</td></tr>
<tr><td>2,000,000 (inclusive) ~ 3,500,000 (exclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>3,500,000 (inclusive) ~ 5,000,000 (exclusive)</td><td></td><td></td><td>Directors:<br>Representative of MPI Investment Co., Ltd.: Ko, Chang-Lin<br>Representative of MPI Investment Co., Ltd.: Steve Chen<br>Representative of MPI Investment Co., Ltd.: Scott Kuo</td><td>Directors:<br>Representative of MPI Investment Co., Ltd.: Ko, Chang-Lin<br>Representative of MPI Investment Co., Ltd.: Steve Chen<br>Representative of MPI Investment Co., Ltd.: Scott Kuo</td></tr>
<tr><td>5,000,000 (inclusive) ~ 10,000,000 (exclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>10,000,000 (inclusive) ~ 15,000,000 (exclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>15,000,000 (inclusive) ~ 30,000,000 (exclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>30,000,000 (inclusive) ~ 50,000,000 (exclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>50,000,000 (inclusive) ~ 100,000,000 (exclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NT$100,000,000 or more</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td>5 persons</td><td>5 persons</td><td>5 persons</td><td>5 persons</td></tr>
</table>

2. Remuneration to supervisors

December 31, 2019; Currency unit: NTD thousand

| Job title | Name | Remuneration to supervisor | | | | | | The sum of A, B, and C to Earnings after Tax (%) | | Remuneration from investees beyond subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remuneration (A) | | Compensation (B) | | For Services Expense (C) | | | | |
| | | The Company | All companies included into the financial statement. | The Company | All companies included into the financial statement. | The Company | All companies included into the financial statement. | The Company | All companies included into the financial statement. | |
| Supervisor | Li, Tu-Cheng | 0 | 0 | 3,720 | 3,720 | 80 | 80 | 0.89% | 0.89% | None |
| Supervisor | Liu, Fang-Sheng | | | | | | | | | |
| Supervisor | Tsai, Chang-Shou | | | | | | | | | |

Breakdown of Remuneration

| Breakdown of remuneration paid to each supervisor. | Supervisor | |
|---|---|---|
| | The sum of (A+B+C) | |
| | The Company | All companies included into the financial statement. |
| Below 1,000,000 | | |
| 1,000,000 (inclusive) ~ 2,000,000 (exclusive) | Li, Tu-Cheng; Liu, Fang-Sheng; Tsai, Chang-Shou | Li, Tu-Cheng; Liu, Fang-Sheng; Tsai, Chang-Shou |
| 2,000,000 (inclusive) ~ 3,500,000 (exclusive) | | |
| 3,500,000 (inclusive) ~ 5,000,000 (exclusive) | | |
| 5,000,000 (inclusive) ~ 10,000,000 (exclusive) | | |
| 10,000,000 (inclusive) ~ 15,000,000 (exclusive) | | |
| 15,000,000 (inclusive) ~ 30,000,000 (exclusive) | | |
| 30,000,000 (inclusive) ~ 50,000,000 (exclusive) | | |
| 50,000,000 (inclusive) ~ 100,000,000 (exclusive) | | |
| NT$100,000,000 or more | | |
| Total | 3 persons | 3 persons |

3. Remuneration to presidents and vice presidents

December 31, 2019; Currency unit: NTD thousand

| Job title | Name | Salary (A) | | Pension (B) | | Bonus and special allowance (C) | | Remuneration to employees (D) | | | | The sum of A, B, C and D to Earnings after Tax (%) | | Remuneration from investees beyond subsidiaries or parent company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | The Company | All companies included into the financial statement. | The Company (Note 1) | All companies included into the financial statement | The Company | All companies included into the financial statement. | The Company | | All companies included into the financial statement. | | The Company | All companies included into the financial statement. | |
| | | | | | | | | Cash dividends | Stock dividends | Cash dividends | Stock dividends | | | |
| President | Scott Kuo | 7,835 | 7,835 | 322 | 322 | 2,083 | 2,083 | 176 | 0 | 176 | 0 | 2.43% | 2.43% | None |
| Vice President Manager | Fan, Wei-Ju | | | | | | | | | | | | | |
| Vice President Manager | Liu, Yung-Chin | | | | | | | | | | | | | |

Note 1: The pension to the President and Vice President refers to the contribution provided by the Company.

Breakdown of Remuneration

| Breakdown of remuneration paid to each president and vice president | Names of president and vice president | |
|---|---|---|
| | The Company | All companies included into the financial statement |
| Below 1,000,000 | | |
| 1,000,000 (inclusive) ~ 2,000,000 (exclusive) | | |
| 2,000,000 (inclusive) ~ 3,500,000 (exclusive) | Fan, Wei-Ju; Liu, Yung-Chin | Fan, Wei-Ju; Liu, Yung-Chin |
| 3,500,000 (inclusive) ~ 5,000,000 (exclusive) | | |
| 5,000,000 (inclusive) ~ 10,000,000 (exclusive) | Scott Kuo | Scott Kuo |
| 10,000,000 (inclusive) ~ 15,000,000 (exclusive) | | |
| 15,000,000 (inclusive) ~ 30,000,000 (exclusive) | | |
| 30,000,000 (inclusive) ~ 50,000,000 (exclusive) | | |
| 50,000,000 (inclusive) ~ 100,000,000 (exclusive) | | |
| NT$100,000,000 or more | | |
| Total | 3 persons | 3 persons |

4. Remuneration to employees paid to managerial officers, and the status of allocation:

December 31, 2019; Currency unit: NTD thousand

<table>
<tr><th colspan="2">Job title</th><th>Name</th><th>Stock dividends</th><th>Cash dividends</th><th>Total</th><th>Proportion to Earnings After Tax (%)</th></tr>
<tr><td rowspan="6">Manager</td><td>President</td><td>Scott Kuo</td><td rowspan="6">0</td><td rowspan="6">368</td><td rowspan="6">368</td><td rowspan="6">0.09%</td></tr>
<tr><td>Vice President</td><td>Fan, Wei-Ju</td></tr>
<tr><td>Vice President</td><td>Liu, Yung-Chin</td></tr>
<tr><td>Manager</td><td>Tang, Fu-Ping</td></tr>
<tr><td>Manager</td><td>Rose Jao</td></tr>
<tr><td>Manager of the Branch Office</td><td>Wang, Jian-Ming</td></tr>
</table>

(VI) Specify and compare the remuneration to directors, supervisors, presidents and vice presidents of the Company in proportion to the earnings after tax from the Company and companies included in the consolidated financial statements in the most recent two (2) years, and specify the policies, standards, combinations, procedure of decision-making of remunerations and their relation to business performance and future risk:

<table>
<tr><th rowspan="3">Job title</th><th colspan="2">2018</th><th colspan="2">2019</th></tr>
<tr><th colspan="2">Proportion to Earnings After Tax (%)</th><th colspan="2">Proportion to Earnings After Tax (%)</th></tr>
<tr><th>The Company</th><th>Companies included into the consolidated financial statement</th><th>The Company</th><th>Companies included into the consolidated financial statement</th></tr>
<tr><td>Director</td><td>4.71%</td><td>4.71%</td><td>4.10%</td><td>4.10%</td></tr>
<tr><td>Supervisor</td><td>1.12%</td><td>1.12%</td><td>0.89%</td><td>0.89%</td></tr>
<tr><td>President<br>Vice President</td><td>7.87%</td><td>7.87%</td><td>2.43%</td><td>2.43%</td></tr>
<tr><td>Total</td><td>13.70%</td><td>13.70%</td><td>7.42%</td><td>7.42%</td></tr>
</table>

1. The Company allocates the remuneration to directors/supervisors in accordance with the Articles of Incorporation. Where the Company has an income before tax after the account settlement, it shall allocate no more than 3% thereof as the remuneration to directors/supervisors. However, profits must first be used to offset cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph. The remuneration shall be reported to the Remuneration Committee and the board of directors for review and then to the shareholders' meeting for approval.

2. The appointment, termination and remuneration of the Company's presidents and vice presidents would be adjusted based on their business performance and reported to the Remuneration Committee for review and approval, and then to the board of directors for approval and implementation. The Company's polices of remuneration vary based on earnings and have nothing to do with future risk.

## III. Status of corporate governance

(I) Operations of the Board

The Board held 6 meetings (A) in 2019. The attendance record of directors & supervisors is listed below:

| Job title | Name | Actual attendance rate (%) (B) | Attendance by proxy | Actual attendance rate (%) (B/A) | Remarks |
|---|---|---|---|---|---|
| Chairman | Representative of MPI Investment Co., Ltd.: Ko, Chang-Lin | 6 | 0 | 100% | Re-elected on June 13, 2017 |
| Director | Representative of MPI Investment Co., Ltd.: Steve Chen | 5 | 1 | 83% | Newly elected on June 13, 2017 |
| Director | Representative of MPI Investment Co., Ltd.: Scott Kuo | 6 | 0 | 100% | Re-elected on June 13, 2017 |
| Independent director | Kao, Chin-Cheng | 6 | 0 | 100% | Re-elected on June 13, 2017 |
| Independent director | Hsu, Mei-Fang | 6 | 0 | 100% | Re-elected on June 13, 2017 |
| Supervisor | Li, Tu-Cheng | 3 | 0 | 50% | Re-elected on June 13, 2017 |
| Supervisor | Liu, Fang-Sheng | 6 | 0 | 100% | Re-elected on June 13, 2017 |
| Supervisor | Tsai, Chang-Shou | 6 | 0 | 100% | Re-elected on June 13, 2017 |

Other notes:

I. If any of the following is applicable to the operation of the Board, specify the date, the series of the session, the content of the motions, the opinions of the Independent Directors, and the response of the Company to the opinions of the Independent Directors:
   (I) Conditions described in Article 14-3 of the Securities and Exchange Act: Refer to the important resolutions of the Board of Directors' meetings on Pages 41~43.
   (II) Any other documented objections or qualified opinions raised by independent director against board resolution in relation to matters other than those described above: Refer to the important resolutions of the Board of Directors' meetings on Pages 41~43.

II. The recusal of the Directors from motions that involved a conflict of interest. Specify the names of the Directors, the content of the motions, and reason for recusal, and the participation in voting: Not applicable.

III. The TWSE/TPEx-listed company shall disclose the appraisal cycle and period, scope of appraisal, method and contents of appraisal about the Board of Directors' self (or peer) performance appraisal, and specify the status of appraisal in Schedule 2(2) attached hereto: The Company schedules to perform an appraisal on the Board of Directors each year as of 2020.

IV. Enhancements to the functionality of the Board of Directors in the current and the most recent year (e.g. establishment of the Audit Committee, and improvement of information transparency etc.), and the progress of such enhancements:
   (I) The Company defined its "Parliamentary Rules for Directors' Meeting" in accordance with the Regulations Governing Procedure for Board of Directors Meetings of Public Companies, and would also enter the status of directors' attendance into the Market Observation Post System (MOPS) and disclose the important resolutions made by the directors' meeting on the Company's website.
   (II) The Company elected two independent directors who should meet at least once per quarter, responsible for the adequate expression of the Company's financial statement, external auditor's independence, effective implementation of internal control, compliance with laws & rules, and assessment and control over the Company's risk.
   (III) The Company established the remuneration committee on December 30, 2011. The committee

| |
|---|
| should evaluate the Company's policies and systems of remuneration to directors, supervisors and managers, in a professional and optimistic manner, and should submit suggestions to the Board of Directors as the reference for decision-making. |

(II) Status of audit committee: The Company has not yet established the audit committee.

(III) Supervisors' participation in the function of Board of Directors

The Board held 6 meetings (A) in 2019. The attendance record is specified as below:

| Job title | Name | Actual attendance counts (B) | Actual attendance rate (%) (B/A) | Remarks |
|---|---|---|---|---|
| Supervisor | Li, Tu-Cheng | 3 | 50% | Re-elected on June 13, 2017 |
| Supervisor | Liu, Fang-Sheng | 6 | 100% | Re-elected on June 13, 2017 |
| Supervisor | Tsai, Chang-Shou | 6 | 100% | Re-elected on June 13, 2017 |
| Other notes:<br>I. The organization of supervisors and their duties:<br>(I) Communications between the Supervisors and the employees and shareholders: If necessary, the supervisors may communicate with the Company's employees and shareholders directly.<br>(II) Communication between supervisors and internal audit officers and CPA: The Company's supervisors may check the Company's business and finance at any time, and ask the Board of Directors or managers to submit the relevant report. If necessary, the supervisors would contact the CPA. The internal audit director shall submit the audit report to supervisors periodically.<br>II. If any supervisor attends the meeting of the board of directors to state their opinion, it is necessary to specify the date, session, motions and resolution of the meet of the board of directors, and the Company's response to the opinion stated by the supervisor: None | | | | |

(IV) Status of Corporate Governance, and any nonconformity to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof:

| Items under evaluation | Status | | | Any nonconformity to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| I. Whether the Company has established rules of corporate governance in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies? | √ | | The Company has established its rules of corporate governance in accordance with the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies," and disclosed the same on the Company's website and MOPS. | No non-conformity |
| II. Equity structure and shareholders' equity | | | | |
| (I) Whether the Company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure? | √ | | The Company has defined its parliamentary rules for shareholders' meeting, and also established the spokesman and deputy spokesman systems as required. The Company appointed dedicated personnel to deal with the investors relation and issues related to shareholders. The contact No. and email address may be viewed in the investor section on the Company's website. | No non-conformity |
| (II) Whether the Company controls the list of major shareholders and the controlling parties of such shareholders? | √ | | The Company appointed a shares registrar, and would update the roster of shareholders periodically to control the name list of parties who control the Company's equity ultimately. | on-conformity |
| (III) Whether the Company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates? | √ | | The Company has defined such control system as "Regulations Governing Supervision of Subsidiaries" and "Regulations Governing Transactions Between Specific Company Group and Related Party." | No non-conformity |
| (IV) Does the Company set up internal norms to prohibit the insiders from utilizing the undisclosed information to trade securities? | √ | | Does the Company set up internal norms to prohibit the insiders from utilizing the undisclosed information to trade securities? | No non-confor mity |
| III. The organization of Board of Directors and its duties: | | | | |

| Items under evaluation | Status | | | Any nonconformity to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (I) Does the Board of Directors have diversified policies regulated and implemented substantively according to the composition of the members? | √ | | The Company has appointed two independent directors, including one female director. Each of the directors has some professional backgrounds covering laws, accounting, industries, finance, marketing, R&D, business administration, expertise and industrial experience, et al. Diversified policies are implemented substantively according to the composition of the members. | No non-conformity |

Status of the policy of diversity for the formation of our Board of Directors:

| Core items under diversity / Members of the Board of Directors | Nationality | Gender | Serve as the Company's employee concurrently | Term of office & seniority as an independent director | | | Age | | Corporate management | Leadership and decision-making | Industry knowledge | Finance and accounting | Legal matters |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Less than 3 years | 3~9 years | 9 years and above | 51~60 years old | 61~70 years old | | | | | |
| Ko, Chang-Lin | R.O.C. | Male | | | | | √ | | √ | √ | √ | | |
| Steve Chen | R.O.C. | Male | √ | | | | √ | | √ | √ | √ | | |
| Scott Kuo | R.O.C. | Male | √ | | | | √ | | √ | √ | √ | | |
| Kao, Chin-Cheng | R.O.C. | Male | | | | √ | √ | | √ | √ | √ | | √ |
| Hsu, Mei-Fang | R.O.C. | Female | | | | √ | √ | | √ | √ | √ | √ | |
| Liu, Fang-Sheng | R.O.C. | Male | | | | | | √ | √ | √ | √ | | |
| Li, Tu-Cheng | R.O.C. | Male | | | | | √ | | √ | √ | √ | | |
| Tsai, Chang-Shou | R.O.C. | Male | | | | | | √ | √ | √ | √ | √ | |

| Items under evaluation | Yes | No | Summary | Any nonconformity |
|---|---|---|---|---|
| (II) Does the Company, in addition to setting up the Remuneration Committee and Audit Committee lawfully, have other functional committee set up voluntarily? | √ | | The Company has set up the Remuneration Committee and Audit Committee lawfully, but has had not other functional committee set up voluntarily so far. | No non-conformity |

| Items under evaluation | Status | | | Any nonconformity to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (III) Has the Company established a set of policies and assessment tools to evaluate the Board's performance, conducted the performance evaluation regularly at least on an annual basis, and submitted the performance evaluation result to the Board and applied the same as reference for remuneration to individual directors and nomination? | √ | | The Company has enacted the "Regulations Governing the Board of Directors' Self (or Peer) Appraisal." The Company schedules to conduct the performance appraisal on the Board of Directors each year as of 2020. | No non-conformity |
| (IV) Does the Company have the independence of the public accountant evaluated regularly? | √ | | The Company's Board of Directors would assess the independence, competency and professionalism of the external auditor regularly in accordance with the relevant laws and regulations. | No non-conformity |
| IV. Whether the Company assigns the adequate number of competent corporate governance officers, and appoints the chief corporate governance officer responsible for the corporate governance affairs (including but not limited to, providing directors/supervisors with the information needed to perform their duties, helping directors/supervisors with compliance, organization of the Board of Directors meetings and shareholders' meetings, and preparation of board meeting and shareholders' meeting minutes, et al.)? | √ | | The shareholders service unit of the Company is responsible for handling matters related to Board of Directors' and shareholders' meetings pursuant to the laws, making minutes of Board of Directors' and shareholders' meetings, dealing with company and change registration, reviewing and revising the Corporate Governance Best-Practice Principles and relative regulations of the Company regularly | No non-conformity |
| V. Has the Company established channels for communications with the stakeholders (including but not limiting to shareholders, employees, customers, and suppliers), and set up a section for stakeholders at the official website of the Company with proper response to the concerns of the stakeholders on issues related to corporate social responsibility? | √ | | The Company has set up the stakeholder section on the Company's website. | No non-conformity |
| VI. Has the Company commissioned a professional share registration and investor service institution for providing services to shareholders? | √ | | The Company has commissioned the professional stock service agent, Share Registration Agency Service Department, Hua Nan Securities, to handle the shareholders' affairs. | No non-conformity |

| Items under evaluation | Status | | | Any nonconformity to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| VII. Disclosure of information | | | | |
| (I) Does the Company have a website setup and the financial business and corporate governance information disclosed? | √ | | The Company's stock code is 6223. The status of the Company's finance and corporate governance may be accessed at the MOPS, and on the website established by the Company at http://www.mpi.com.tw. | No non-conformity |
| (II) Whether there are other means for disclosure adopted by the Company (e.g. set up a English website, with the personnel dedicated to gathering and disclosing relevant information, properly implement the spokesman system, and post the meetings minutes with institutional investors on the Company website)? | √ | | The website established by the Company provides the English version. The Company has also delegated the spokesman and deputy spokesman to collect and disclose the Company's information, to fulfill the spokesman system. | No non-conformity |
| (III) Whether the Company announces and reports the annual financial report within two months at the end of each fiscal year, and the financial report for Q1, Q2, and Q3 and monthly operation overview before the prescribed time limit? | √ | | The Company announced and reported the annual financial report and the financial report for Q1, Q2, and Q3 and monthly operation overview before the prescribed time limit. | No non-conformity |
| VIII. Other important information facilitating understanding of the functioning of corporate governance (including but not limited to, the state of employees' rights and interests, concern for employees, investor relations, vendor relations, rights of interested parties, continuing education of directors and supervisors, implementation of risk management policy and risk assessment criteria, implementation of customer policy, and liability insurance purchased by the Company for directors and supervisors)? | √ | | Note 1 | No non-conformity |
| IX. Response to the corporate governance evaluation result released by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year, and further effort shall be made on matters for improvement but still unaccomplished: The Company will spare no efforts to show the determination of sustainable operation in all aspects, and also continue to exercise the corporate social responsibility of ethical management and take responsibility of long-term sustainable operation for the stakeholders and society. | | | | |

Note 1: Establishment of nomination committee or other functional committees, and the status of their operations. The Company has established the remuneration committee. The committee will call a meeting at least twice per year, dedicated to appraising the performance of directors and managers, and the policies of remuneration. The Company has not yet established any nomination committee or other functional committees.

1. Information about remuneration committee members

| ID | Qualification / Name | More than five (5) years of experience and the following professional qualifications: Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities. | Pass the qualification examination with proper licensing by the national Government Apparatus as court judge, prosecutor, lawyers, certified public accountant or other professional designations required by the business of the Company. | Work experience in commerce, law, finance and banking, accounting or necessary for company operation. | Status of independence: 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Number of public companies where the person holds the title as Remuneration Committee member | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Independent Director | Kao, Chin-Cheng | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None | None |
| Independent Director | Hsu, Mei-Fang | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None | None |
| Others | Su, Hsien-Teng | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None | None |

Note 1: Please specify director, independent director, or others.

Note 2: Respective members who meet the following qualifications two (2) years before assumption of office and at the time of assumption office shall put a "✓" in the appropriate space.

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

(2) Not a Director or Supervisor of the Company or any of its affiliates (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, or any subsidiary of the same parent company which have been appointed in accordance with the Act, or laws of the registered country).

(3) Not a natural person, spouse, underage children, or under the title of a third party represented 1% holds more than 1% of the outstanding shares issued by the Company or among the top 10 natural person shareholders.

(4) Not a spouse, relative within 2nd degree of kinship, or lineal relative by blood within 3rd degree of kinship or closer to the managers described in Item (1) or persons described in the Item (2) and Item (3).

(5) Not a Director, Supervisor, or employee of any institutional shareholder that has 5% or higher of the total shares issued by the Company, or of top-5 institutional shareholders of the Company, or the institutional shareholders who appoint their representatives to serve as the Director or Supervisor of the Company in accordance with Paragraph 1 or Paragraph 2 of Article 27 of the Company Act (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, or any subsidiary of the same parent company which have been appointed in accordance with the Act, or laws of the registered country).

(6) Not a director, supervisor or employee of any company controlled by the same person that holds a majority of the directors or voting shares of the Company (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, which have been appointed in accordance with the Act, or laws of the registered country).

(7) Not a director, supervisor or employee of any company who is the same person as, or the spouse of, Chairman and President or equivalent of the Company (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, or any subsidiary of the same parent company which have been appointed in accordance with the Act, or laws of the registered country).

(8) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any companies or institutions that have financial or business relationship with the Company (this restriction does not apply to any specific company or organization which holds more than 20% but less than 50% of the total shares issued by the Company that is an independent director in the Company, its parent company or subsidiary, or any subsidiary of the same parent company who has been appointed in accordance with the Act, or laws of the registered country).

(9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the Company or any affiliated company of the Company, or that provides commercial, legal, financial, accounting or related services to the Company or any affiliated company of the Company for which the provider in the past 2 years has received cumulative compensation not exceeding NT$500,000, or a spouse thereof, provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) Not under any of the categories stated in Article 30 of the Company Act.

2. Duties of the Remuneration Committee

The Committee is responsible for establishing the remuneration system that can reflect the employees' performance in an independent aspect. The Committee shall exercise its function the Board of Directors gives it to regularly propose the remuneration system or suggestion to the Board of Directors for discussion and resolution.

3. Information about status of Remuneration Committee

(1) The Company's Remuneration Committee consists of three (3) members.

(2) Current term of office: The term of office commences from July 12, 2017 until June 12, 2020. The Committee held 3 (A) meetings in 2019.

The qualifications and attendance record of the Committee members is summarized as follows:

| Job title | Name | Actual attendance (B) | Attendance by proxy | Actual attend rate (%) (B/A) | Remark |
|---|---|---|---|---|---|
| Convener | Kao, Chin-Cheng | 3 | 0 | 100% | Re-elected on July 12, 2017 |
| Member | Hsu, Mei-Fang | 3 | 0 | 100% | Re-elected on July 12, 2017 |
| Member | Su, Hsien-Teng | 3 | 0 | 100% | Re-elected on July 12, 2017 |

Other notes:

I. If the Board of Directors does not adopt, or amends, the Remuneration Committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the board of directors, and the Company's handling of the Remuneration Committee's opinions (If the remuneration ratified by the board of directors is superior than that suggested by the Remuneration Committee, please specify the deviation and reasons thereof): None

II. For resolution(s) made by the Remuneration Committee with the Committee members voicing opposing or qualified opinions on the record or in writing, please state the meeting date, term, contents of motion, opinions of all members and the Company's handling of the said opinions.

| Date of resolution made by the Board of Directors | Date of resolution made by the Remuneration Committee | Content of the motions and subsequent actions taken | Result | The Company's handling of the Remuneration Committee members' opinion |
|---|---|---|---|---|
| 8th Term 1st 01/25/2019 | 4th Term 1st 01/25/2019 | Approved the managers' remuneration proposal in 2019. | Approved by all of the Committee members | Proposed to the directors' meeting and unanimously approved by the present directors |
| 8th Term 2nd 03/18/2019 | 4th Term 2nd 03/18/2019 | Approved the remuneration of the directors, supervisors and employees in 2018. | Approved by all of the Committee members | Proposed to the directors' meeting and unanimously approved by the present directors |
| 8th Term 5th 08/07/2019 | 4th Term 3rd 08/07/2019 | Motion for allocation of the 2018 employee remuneration to managers | Approved by all of the Committee members | Proposed to the directors' meeting and unanimously approved by the present directors |

Note: 1- Where a committee member may be relieved from duties before the end of the fiscal year, please specify the date of his/her discharge in the 'Remarks" Section. His/her actual attendance rate (%) to the committee meeting shall be calculated on the basis of the number of meetings called and actual number of meetings he/she attended, during his/her term of office.

2- If there was an election of new members for the Remuneration Committee before the end of the fiscal year, fill in the information on the former and the new members, and specify if the members are newly elected to office or reelected for a second term of office, and the date of the election. His/her actual attendance rate (%) to the committee meeting shall be calculated on the basis of the number of meetings called and actual number of meetings he/she attended, during his/her term of office.

(3) Functions of the Remuneration Committee:

The Remuneration Committee shall implement the following functionality faithfully and submit the proposed motions to the Board of Directors for discussion to fulfill the duty of care as a good administrator:

①Stipulate and review regularly the compensation policies, systems, standards and structures, and performance of directors and managers.

②Regularly review and adjust directors' and managers' remuneration.

4. Other important information relevant to the understanding of actual corporate governance:

(1) The Company defines its work rules in accordance with the relevant laws and regulations, which provide written provisions about protection of human rights and employee's interest and right. Meanwhile, the Company will maintain the reciprocal cooperation relationship with suppliers and customers trading with the Company.

(2) The Company has defined the corporate governance best-practice principles and handle relative affairs per the principles.

(3) The Company's directors and supervisors are able to perform their duties honestly and exercise their powers as good administrators.

(4) The Company has purchased liability insurance for directors/supervisors in accordance with the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies." For the relevant information, please visit the MOPS.

(5) In order to enhance the corporate governance, the Company's Board of Directors will call a meeting at least once per quarter.

(6) The status of continuing education of directors and supervisors is disclosed at the MOPS(http://newmops.tse.com.tw)

Status of continuing education of directors & supervisors in 2019:

| Job title | Name | Organizer | Date | Name of Course | Course hours |
|---|---|---|---|---|---|
| Chairman | Representative of MPI Investment Co., Ltd.: Ko, Chang-Lin | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |
| Director | Representative of MPI Investment Co., Ltd.: Steve Chen | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |
| Director | Representative of MPI Investment Co., Ltd.: Scott Kuo | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |

| | | | | | |
|---|---|---|---|---|---|
| Independent director | Kao, Chin-Cheng | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |
| Independent director | Hsu, Mei-Fang | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |
| Supervisor | Li, Tu-Cheng | Taiwan Corporate Governance Association | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |
| Supervisor | Liu, Fang-Sheng | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |
| Supervisor | Tsai, Chang-Shou | Taiwan Corporate Governance Association | 01/25/2019 | Impact Posed by Latest Amendments to Company Act to the Company and its Directors, and Responsive Action | 3 |
| | | | 07/10/2019 | How Directors Make Decisions Free From Breach of Trust and Non-Arm Length Transactions | 3 |

(V) Fulfillment of Social Responsibility and any nonconformity to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof:

| Items under evaluation | Status | | | Any nonconformity to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| I. Whether the Company conducts the risk assessment on the environment, society and corporate governance issues related to the Company's operation and adopts related risk management policies or strategies? | √ | | The Company's management unit will assess and review risk events periodically. Then, the President compiles the significant risk events and reports them to the Board of Directors periodically, takes preventive and control measures against potential risks, and formulates the related early warning policies. Meanwhile, the Company conducts the risk assessment on the society and corporate governance issues related to the Company's operation and adopts related risk management policies and strategies. | No non-conformity |

| Items under evaluation | Status | | | Any nonconformity to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| II. Does the Company have a specific (or part-time) unit set up to promote corporate social responsibility, have the management authorized by the Board of Directors to handle matters and report the processing results to the Board of Directors? | | √ | The Company has not yet established any specific (or part-time) unit in CSR practices. | Under research |
| III. Environmental issues | | | | |
| (I) Has the Company established environmental policies suitable for the Company's industrial characteristics? | √ | | The Company handles the environment management-related affairs pursuant to the environmental protection and labor safety laws and regulations. | No non-conformity |
| (II) Does the Company endeavor to upgrade the efficient use of available resources, and the use of environmental-friendly materials? | √ | | The Company recycles various materials and supplies and adopts low-contamination raw materials to reduce the impact to the environment. | No non-conformity |
| (III) Whether the Company assesses the potential risk and opportunity posed by climate changes to the enterprise, now and in the future, and takes responsive measures related to climate issues? | √ | | Including combining with the main profession to improve the efficiency of products and energy, raw materials & waste management, reduction of packaging, recycling, and upgrade the utilization of energy. | No non-conformity |
| (IV) Whether the Company discloses the annual greenhouse gas emission, water consumption and gross weight of waste for the past two years, and adopts policies for energy conservation and carbon reduction, greenhouse gas reduction, reduction of water consumption or management of exhaust gas and other waste goods? | √ | | The Company works hard to boost such measures for classification of garbage and reduction of waste, reduction of detergent (replaced with camellia powder), usage of disposable bowls and chopsticks, and saving of water and power consumption, in order to achieve the goal for saving energy and reducing carbon and greenhouse gas. | No non-conformity |
| IV. Social issues | | | | |

| Items under evaluation | Status | | | Any nonconformity to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (I) Does the Company have the relevant management policies and procedures stipulated in accordance with the relevant laws and regulations and international conventions on human rights? | √ | | The Company defines its work rules in accordance with Article 70 of the Labor Standards Act, and reports the same to the competent authority for approval and disclosure. | No non-conformity |
| (II) Whether the Company adopts and implements reasonable employee benefit policy (including remuneration, vacation and other benefits, etc.), and reflects the operating performance or results to the remuneration to employees adequately? | √ | | For the Company's employee benefit measures and implementation thereof, please refer to the annual report (Pages 88~95). | No non-conformity |
| (III) Whether the Company provides its employees with a safe and healthy work environment, and regularly implements employee safety and health education measures? | √ | | The Company organizes the operating environment test, employees' health examination, health symposiums, safety and sanitation education and training, and on-site health inquiry with physician, and also establishes the breastfeeding room, medical room, lounge for employees, and parking lots exclusive for the mother-to-be, in order to provide a working environment where it is safe and comfortable and employees are pleased to work. | No non-conformity |
| (IV) Has the Company established some effective career development training plan for employees? | √ | | The Company organizes a career development training program for employees on a regular basis.<br>For details, please refer to Page 88 of the annual report. | No non-conformity |

| Items under evaluation | Status | | | Any nonconformity to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (V) Whether the Company complies with the related laws and international practices with respect to customers' health and safety, customers' privacy, marketing and labeling for its products and services, and adopts related consumers protection policy and complaining procedures? | √ | | The Company values customers' satisfaction about various services, and awareness toward corporate identity, brand value and service quality. The Company provides perfect product solutions and various innovative products. Dedicated units are appointed to be responsible for product development & design, production & delivery, or maintenance service, in hopes of providing services as soon as possible. | No non-conformity |
| (VI) Whether the Company adopts any specific suppliers' management policy demanding that the suppliers should comply with the related regulations governing environmental protection, occupational safety and health or labors' human rights, and how the policy is implemented? | √ | | The Company conducts the assessment on social and environmental responsibilities of all suppliers and contractors to ensure that the suppliers and contractors comply with laws. Where the suppliers or contractors violate their social and environment responsibilities, the cooperative business relationship between the Company and them will be affected. | No non-conformity |
| V. Whether the Company prepares the report disclosing the Company's non-financial information, such as CSR report, based on the guidelines or directions for preparation of reports applicable internationally? Whether said report has been assured or guaranteed by a third party certification unit? | | √ | The Company has not yet prepared a CSR report. | Under research |
| VI. Has the Company established its own corporate social responsibility principles based on the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies"? If any, please describe any discrepancy between the principles and their implementation: Under research. | | | | |

<table>
<tr><th rowspan="2">Items under evaluation</th><th colspan="3">Status</th><th rowspan="2">Any nonconformity to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof:</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td colspan="5">VII. Other information material to the understanding of the corporate social responsibility:<br>Donation to public welfare groups in 2019:</td></tr>
</table>

| Item No. | Donee | Donation |
|---|---|---|
| 1 | World Peace Association | 341,969 |
| 2 | Chinese Fund for Children and Families/Taiwan | 240,000 |
| 3 | ANDREW Charity Association | 12,000 |
| 4 | R.O.C. Salvation Charity Association | 22,598 |
| 5 | Saint Joseph Social Welfare Foundation | 20,000 |
| 6 | Hao Shang Orphanage | 43,509 |
| 7 | Hsinchu City Symphonic Band | 200,000 |
| 8 | Chang Yung-Fa Foundation | 400,000 |
| 9 | Tai-he Community Development Association in Zhubei City, Hsinchu County | 20,000 |
| 10 | Hsinchu County Symphonic Band | 150,000 |
| Total | | 1,450,076 |

(VI) Fulfillment of ethical management and any nonconformity to the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof: :

<table>
<tr><th rowspan="2">Items under evaluation</th><th colspan="3">Status</th><th>Any nonconformity to the Ethical Business Best Practice Principles for TWSE/TPEx Listed Companies, and reasons thereof:</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th><th></th></tr>
<tr><td colspan="5">I. Establish ethical business policies and programs</td></tr>
<tr><td>(I) Whether the Company adopts the ethical management policy approved by the Board of Directors, and expressly states the ethical corporate management policy and rules, and its fulfillment by the Board of Directors and senior management in its Articles of Incorporation and public documents?</td><td>√</td><td></td><td>The Company adheres to the ethical business principle, and aims at creating the maximum interest for shareholders and employees. The Board of Directors and management also work hard to fulfill the ethical business.</td><td>No non-conformity</td></tr>
</table>

| | | | | |
|---|---|---|---|---|
| (II) Whether the Company establishes the assessment mechanism about unethical conduct to analyze and assess the operating activities with higher risk of unethical conduct in the scope of business periodically, and adopts the unethical conduct prevention program based on the mechanism, which shall at least cover the prevention measures referred to in the subparagraphs of Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies"? | √ | | All of the Company's employees need to comply with the Company's "Service Agreement" and to prevent bribery and acceptance of bribery, and illegal political contribution. | No non-conformity |
| (III) Whether the Company expressly states the SOP, guidelines and reward and disciplinary & complaining systems in the unethical conduct prevention program, implements the same precisely and periodically reviews and amends said program? | √ | | According to the Company's "Service Agreement," employees are required to maintain the highest ethical business conduct. The Agreement also expressly states the SOP and guidance for ethical behavior. | No non-conformity |
| II. Implementation of ethical corporate management | | | | |
| (I) Does the Company evaluate the integrity of all counterparts it has business relationships with? Are there any ethical management clauses in the agreements it signs with business partners? | √ | | The Company has already signed the "Non-Disclosure Agreement" which expressly defines the clauses about ethical behavior with its trading counterparts. | No non-conformity |
| (II) Whether the Company establishes a unit dedicated to promoting ethical corporate management under supervision by the Board of Directors who shall be responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs, and reporting the status thereof to the Board of Directors periodically (at least once per year)? | | √ | The Company has not yet set up any specific (part-time) unit to advocate ethical corporate management. | Under research |

| | | | | |
|---|---|---|---|---|
| (III) Does the Company have developed policies to prevent conflicts of interest, provided adequate channel for communication, and substantiated the policies? | √ | | The Company defines the conflict of interest policy to avoid any conflict with personal interest and the Company's interest. | No non-conformity |
| (IV) Whether the Company fulfills the ethical management by establishing an effective accounting system and internal control system, and has an internal audit unit research and adopt related audit plans based on the unethical conduct risk assessment result and conduct audits on the compliance by the unethical conduct prevention program, or appoints a CPA to conduct the audits? | √ | | The Company establishes the effective accounting system and internal control system. Auditors would also audit the compliance with the systems periodically. | No non-conformity |
| (V) Does the Company organize internal or external training on a regular basis to maintain ethical management? | | √ | The Company has not yet organized any educational training about ethical management. | Under research |
| III. Reporting of misconduct | | | | |
| (I) Whether the Company defines a specific whistle-blowing and reward system, and establishes some convenient whistle-blowing channel, and assigns competent dedicated personnel to deal with the situation? | √ | | The Company defines the "administrative disciplinary" measures. Any complaint may be filed via the email exclusive for employees' complaining. | No non-conformity |
| (II) Whether the Company defines the standard operating procedure, follow-up measures to be taken upon completion of the investigation, and nondisclosure mechanism toward the investigation of complaints as accepted? | √ | | The Company has implemented standard operating procedures or confidentiality measures for handling reported misconducts. | No non-conformity |
| (III) Has the Company adopted any measures to prevent the whistle-blowers from being abused after whistle-blowing? | √ | | The Company will keep the complainant's personal information confidential and take appropriate protective measures. | No non-conformity |
| IV. Strengthening information disclosure<br>Whether the Company discloses its ethical corporate management best-practice principles and effect of implementation thereof on its | √ | | The Company's website and Market Observation Post System (MOPS) have disclosed the "ethical corporate management best-practice principles." | No non-conformity |

| | | | | |
|---|---|---|---|---|
| website and MOPS? | | | | |
| V. If the Company has established its own ethical corporate management best practice principles in accordance with the “Ethical Corporate Management Best-Practice Principles for TWSE /TPEx Listed Companies,” please describe its current practices and any deviations from the Best Practice Principles: No deviation. | | | | |
| VI. Other important information regarding the Company’s ethical management (e.g., the Company’s reviewing and amending the Company’s ethical management best practice principles, etc.): None | | | | |

(VII) If the Company has established the corporate governance best-practice principles and relevant regulations, the way to access such principles must be disclosed: The Company has disclosed the contents on the Market Observation Post System and the Company’s official website (corporate governance section).

(VIII) Other information enabling better understanding of the Company’s corporate governance: None.

(IX) Disclosure of internal control system:

1. Internal Control Declaration:

# MPI Corporation
# Declaration of International Control System

Date: March 26, 2020

The following declaration is made based on the 2019 self-assessment on the Company's internal control system:

I. The Company is fully aware that the Board of Directors and the management are responsible for the establishment, implementation, and maintenance of the internal control system and it is established accordingly. The purpose of this system is to provide reasonable assurance in terms of the effectiveness and efficiency of operations (including profitability, performance and asset security), reliable, timely and transparent reporting, and compliance with relevant laws and regulations.

II. The internal control system is designed with inherent limitations. No matter how perfect the internal control system is, it can only provide a reasonable assurance to the fulfillment of the three objectives referred to above. Moreover, the effectiveness of the internal control system could be affected by the changes of environment and circumstances. The Company's internal control system is designed with a self-monitoring mechanism; therefore, corrective actions will be activated upon identifying any nonconformity.

III. The Company has assessed the effectiveness of the internal control system design and implementation in accordance with the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "the Regulations"). The criteria defined in said "Regulations" include five elements depending on the management control process: (1) environment control, (2) risk assessment, (3) control process, (4) information and communication, and (5) supervision. Each of the five elements is then divided into a sub-category. Please refer to the "Regulations" for details.

IV. The Company has implemented said criteria of the internal control system to inspect the effectiveness of internal control system design and implementation.

V. Based on the result of the assessment, the Company finally determined the effectiveness of the design and implementation of our internal control system until December 31, 2019 (including supervision and management of subsidiaries) regarding the effectiveness and efficiency of operations, the reliability, promptness, and transparency of reports and compliance with relevant laws and regulations. This system provided reasonable assurance that the above objectives have been achieved.

VI. The Declaration of Internal Control System is the main content of the Company's annual report and prospectus published. Any false and concealment of the published contents referred to above involves the liability illustrated in Article 20, Article 32, Article 171, and Article 174 of the Securities and Exchange Act.

VII. The Declaration of Internal Control System was resolved at the Board meeting with the objection of 0 board directors out of the 5 attending board directors on March 26, 2020. The contents of the declaration were accepted without any objection.

MPI Corporation

Chairman: Ko, Chang-Lin (affixation of seal)
President: Scott Kuo (affixation of seal)

2. The internal control audit report issued by the CPA commissioned to conduct an internal control audit, if any: None

(X) If there has been any legal penalty against the Company or its internal personnel, or any disciplinary penalty by the Company against its internal personnel for violation of the internal control system, during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report, where the result of such penalty could have a material effect on shareholders' equity or securities prices, please disclose the penalty, main shortcomings, and condition of improvement: None

(XI) Resolutions reached in the shareholder's meeting or by the Board of Directors during the most recent year and up to the date of publication of the annual report:

Important resolution reached by the Board of Directors:

| Date of important resolution made by the Board of Directors | Important resolution | Article 14-3 or 14-5, Securities and Exchange Act | Independent directors' opinion and the Company's action |
|---|---|---|---|
| 8th Term 1st on January 25, 2019 | Approved the discussion about the Company's 2019 operational plan. | | None |
| | Approved the discussion about allocation ratios for remuneration to employees, directors and supervisors in 2019. | | None |
| | Approved the discussion about remuneration to the Company's managers reviewed by Remuneration Committee. | | None |
| | Approved the discussion of contracting third parties to construct on land owned by the Company. | V | None |
| 8th Term 2nd March 18, 2019 | Approved the allocation of 2018 remuneration to employees and directors/supervisors. | | None |
| | Approved the 2018 Operation Review and Financial Statements. | V | None |
| | Approved the discussion about allocation of 2018 earnings. | | None |
| | Approved the discussion about the Company's "Articles of Incorporation." | | None |
| | Approved the discussion about the Company's "Operating Procedure for Acquisition or Disposal of Assets." | V | None |
| | Approved the discussion about the Company's "Procedures for Engaging in Derivatives Trading." | V | None |
| | Approved the discussion about the Company's "Operating Procedure for Loaning of Funds to Others." | V | None |
| | Approved the discussion about the Company's "Operating Procedure for Making of Endorsement/Guarantee." | V | None |
| | Approved the discussion about the Company's "Corporate Governance Best-Practice Principles." | | None |
| | Approved the discussion about the Declaration of International Control System 2018. | V | None |
| | Discussion about date, location and agenda of the annual | | None |

| | | | |
|---|---|---|---|
| | general meeting 2019 | | |
| | Approved the motion for change of the external audit responsible for auditing the Company's financial statements. | | None |
| 8th Term<br>3rd<br>May 7, 2019 | Approved parts of the provisions of the "Articles of Incorporation" of the Company. | | None |
| | Approved the "Procedures for Handling Requests Made by Directors" of the Company. | | None |
| | Approved the change in the chief financial officer of the Company. | V | None |
| 8th Term<br>4th<br>July 10, 2019 | Approved the record date for issuance of new shares upon conversion of 4th non-secured domestic convertible corporate bonds into common stock in Q2 of 2019. | V | None |
| | Approved the change in the chief auditing officer of the Company. | V | None |
| 8th Term<br>5th<br>August 7, 2019 | Approved the record date for the Company's 2019 cash dividend and stock dividend. | | None |
| | Approved the employee remuneration to the Company's managers proposed by the Remuneration Committee. | | None |
| | Approved the amendments to the Company's "Internal Control System Documents." | | None |
| 8th Term<br>6th<br>November 12, 2019 | Approved the discussion about the Company's 2020 internal audit plan. | | None |
| | Approved the amendments to the Company's "Regulations Governing Supervision of Subsidiaries." | | None |
| 8th Term<br>1st<br>January 14, 2020 | Approved the discussion about the Company's 2020 operational plan. | | None |
| | Approved the discussion about allocation ratios for remuneration to employees, directors and supervisors in 2020. | | None |
| | Approved the discussion about remuneration to the Company's managers reviewed by Remuneration Committee. | | None |
| | Approved the discussion about adoption of the Company's "Regulations Governing the Board of Directors' Self (or Peer) Appraisal." | | None |
| | Approved the record date for issuance of new shares upon conversion of 4th non-secured domestic convertible corporate bonds into common stock in Q4 of 2019. | V | None |
| 8th Term<br>2nd<br>March 26, 2020 | Motion for the allocation of 2019 remuneration to employees and directors/supervisors. | | None |
| | Motion for 2019 Operation Review and Financial Statements. | V | None |
| | Motion for discussion about allocation of cash dividend from 2019 earnings. | | None |
| | Motion for amendments to the amendments to the Company's "Articles of Incorporation." | | None |
| | Motion for amendments to "Parliamentary Rules for Shareholders' Meetings." | | None |
| | Motion for amendments to the "Regulations for Election of Directors/Supervisors." | | None |
| | Motion for amendments to the Company's "Operating | V | None |

| | | | |
|---|---|---|---|
| | Procedure for Acquisition or Disposal of Assets.” | | |
| | Motion for amendments to the Company’s “Procedures for Engaging in Derivatives Trading.” | V | None |
| | Motion for amendments to the “Operating Procedure for Loaning of Funds to Others” | V | None |
| | Motion for amendments to the “Operating Procedure for Making of Endorsement/Guarantee.” | V | None |
| | Motion for revocation of the “Parliamentary Rules for Supervisors’ Meetings.” | | None |
| | Motion for discussion about the Declaration of International Control System 2019 | V | None |
| | Re-election of the Company’s directors of 9th term (including independent directors). | | None |
| | Motion for opening of nomination of candidates for directors (including independent directors) to the Company. | | None |
| | Motion for nomination of candidates for directors (including independent directors) of 9th term. | | None |
| | Discussion about date, location and agenda of the annual general meeting 2020 | | None |
| 8th Term<br>3rd<br>May 12, 2020 | Motion for discussion about adoption of the Company’s “Articles of Association for Audit Committee.” | | None |

Status of important resolution made by the general shareholders’ meeting 2019:

| Date of important resolution made by the shareholders’ meeting | Important resolution | Status |
|---|---|---|
| General shareholders’ meeting<br>June 11, 2019 | The motion for operation review and financial statements 2018 was ratified. | Passed by the present shareholders unanimously. |
| | The motion for allocation of 2018 earnings was ratified. | Passed by the present shareholders unanimously; cash dividends distributed at NT$2 per share; ex-dividend record date: September 10, 2019; date of allocation of cash dividends: September 23, 2019. |
| | Motion for amendments to the Company’s “Articles of Incorporation.” | Obtained the permission from the Ministry of Economic Affairs on June 25, 2019 and announced on the Company’s website. |

(XII) Recorded or written statements made by any director or supervisor which specified dissent to important resolutions passed by the Board of Directors during the most recent year and up to the date of publication of this annual report: None

(XIII) Summary of discharge and termination of parties relating to the financial report (including the Chairman, president, accounting officer, finance officer, internal audit officer, corporate governance officer and R&D officer) during the most recent year and up to the date of publication of the annual report: None

| Job title | Name | Date Onboard | Date of Discharge | Cause of resignation or discharge |
|---|---|---|---|---|
| Finance Officer | Rose Jao | March 9, 2007 | May 7, 2019 | Job adjustment |
| Audit officer | Chen, Yi-Chang | June 6, 2008 | July 31, 2019 | Retirement |

(XIV) Other disclosure:

Status of the continuing education of the Company's accounting officer and audit officer in 2019:

| Job title | Name | Institute | Date | Name of Course | Hours |
|---|---|---|---|---|---|
| Accounting officer | Rose Jao | Accounting Research and Development Foundation | November 14, 2019~November 15, 2019 | Continuing education program for accounting officer of issuer, securities firm and securities exchange | 12 |
| Audit officer | Liu, Yi-Ping | Internal Audit Association | February 20, 2019~February 22, 2019 | Orientation training workshop for internal auditors in enterprises | 18 |

## IV. Information about CPA Professional Fee

(I) Breakdown of CPA Professional Fee:

Unit: NTD thousands

| Firm Name | CPA Name | Audit Fee | Non-Audit Fee | | | | | Duration of Audit | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | | System Design | Commercial and Industrial Registration | HR | Others | Subtotal | | |
| Nexia Sun Rise CPAs & Co. | Chen, Chih-Ling<br>Chen, Yi-Ling | 2,434 | 0 | 31 | 0 | 0 | 2,465 | January 1, 2019~December 31, 2019 | None |

(II) If the Company meets any of the following circumstances, it shall disclose the CPA professional fee:

(1) If the on-audit fees paid to the CPA, CPA firm and their affiliates exceeded the audit fees in excess of twenty-five percent, the Company shall disclose the audit fee and non-audit fee, as well as the contents of the non-audit service: None

(2) Change of CPA firm and the audit fees for the year of the change less that of the previous year, and the amount of audit fees before and after the change, and reasons of the change: None

(3) In the case of reduction in the audit fees by more than 15% from the previous year, please disclose the amount of reduction in the audit fees, and proportion and causes thereof: None

## V. Information About Replacement of CPA: None

(I) Former CPA: None

(II) Succeeding CPA: None

(III) The former CPA's written response to the sub-paragraphs 1&2-3 of Paragraph 5 of Article 10 of the Principles: None

## VI. Information about Chairman, President, or financial or accounting manager of the Company who has worked with the CPA firm which conducts the audit of the Company or affiliate to such firm in the most recent one year: None

## VII. Any transfer of equity interests and pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent in the most recent year and until to the date of publication of the annual report:

(I) Change in equity of directors, supervisors, managers, and major shareholders

| Job title | Name | 2019 | | As of April 30, 2020 | |
|---|---|---|---|---|---|
| | | Increase (Decrease) in current holding | Increase (Decrease) in shares pledged | Increase (Decrease) in current holding | Increase (Decrease) in shares pledged |
| Chairman, director and also major shareholder | MPI Investment Co., Ltd. Representative: Ko, Chang-Lin | 0 | 0 | 0 | 0 |
| Chairman, director and also major shareholder | MPI Investment Co., Ltd. Representative: Steve Chen | 0 | 0 | 0 | 0 |
| Chairman, director and also major shareholder | MPI Investment Co., Ltd. Representative: Scott Kuo | 0 | 0 | 0 | 0 |
| Independent director | Hsu, Mei-Fang | 0 | 0 | 0 | 0 |
| Independent director | Kao, Chin-Cheng | 0 | 0 | 0 | 0 |
| Supervisor | Liu, Fang-Sheng | 0 | 0 | 0 | 0 |
| Supervisor | Li, Tu-Cheng | 0 | 0 | 0 | 0 |
| Supervisor | Tsai, Chang-Shou | 0 | 0 | 0 | 0 |
| President | Scott Kuo | 0 | 0 | 0 | 0 |
| Vice President | Fan, Wei-Ju | 0 | 0 | 0 | 0 |
| Vice President | Liu, Yung-Chin | 0 | 0 | 0 | 0 |
| Finance Officer (Note 1) | Tang, Fu-Ping | 0 | 0 | 0 | 0 |
| Accounting officer | Rose Jao | 0 | 0 | 0 | 0 |

Note 1: Serving as the finance officer as of May 7, 2019

(II) Information about transfer or pledge of equity: None.

## VIII. Information about the relationship among the Company's 10 largest

**shareholders:**

April 30, 2020

| Name | Own shareholding | | Current Shares Held by Spouse and Children of Minor Age | | Total shareholding Under the Name of A Third Party | | Disclosure of information on related parties or spousal relationship or relations within the second degree of kinship, among top ten shareholders, including their names or designations, and relationship | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Ratio of shareholding | Shares | Ratio of shareholding | Shares | Ratio of shareholding | Designation (or Name) | Relationship | |
| MPI Investment Co., Ltd. | 8,334,626 | 10.42% | 0 | 0% | 0 | 0% | MPI Investment Co., Ltd. | Director of the Company | None |
| Representative: Ko, Chang-Lin | 1,425,994 | 1.78% | 427,781 | 0.54% | 0 | 0% | MPI Investment Co., Ltd. | Chairman of the Company | None |
| MJC | 3,506,576 | 4.39% | 0 | 0% | 0 | 0% | None | No relationship | None |
| Representative: Masayoshi Hasegawa | 0 | 0% | 0 | 0% | 0 | 0% | None | No relationship | None |
| Labor pension fund under the new system | 3,209,000 | 4.01% | 0 | 0% | 0 | 0% | None | No relationship | None |
| Ko, Chang-Lin | 1,425,994 | 1.78% | 0 | 0% | 0 | 0% | MPI Investment Co., Ltd. | Chairman of the Company | None |
| Arcadia Emerging Markets Equity Small Cap Fund managed by HSBC as the custodian | 1,068,728 | 1.34% | 0 | 0% | 0 | 0% | None | No relationship | None |
| Credit Suisse First Boston (CSFB) managed by Standard Chartered Bank as the custodian | 1,050,000 | 1.31% | 0 | 0% | 0 | 0% | None | No relationship | None |
| Tsai, Min-Xun | 600,000 | 0.75% | 0 | 0% | 0 | 0% | None | No relationship | None |
| Li, Tu-Cheng | 539,349 | 0.67% | 0 | 0% | 0 | 0% | Li, Tu-Cheng | The Company's supervisor | None |
| DFA Emerging Market Core Securities Investment Accounts commissioned to Citibank | 499,000 | 0.62% | 0 | 0% | 0 | 0% | None | No relationship | None |
| MORGAN STANLEY & CO. INTERNATIONAL LIMITED Account managed by HSBC as the custodian | 483,000 | 0.60% | 0 | 0% | 0 | 0% | None | No relationship | None |

## IX. The number of shares held by the Company and the Company's directors, supervisors and managers, and the number of shares invested in a single company which are held by the entities directly or indirectly controlled by the Company, and calculating the consolidated shareholding percentage of the above categories.

December 31, 2019 Unit: Share; %

| Investee (Note 1) | Invested by the Company | | Invested by directors, supervisors, managers, and entities controlled by the Company directly or indirectly | | Combined investment | |
|---|---|---|---|---|---|---|
| | Shares | Ratio of shareholding | Shares | Ratio of shareholding | Shares | Ratio of shareholding |
| Chain-Logic International Corp. | 5,000,000 | 100% | 0 | 0 | 5,000,000 | 100% |
| MPI TRADING CORP. | 1,000 | 100% | 0 | 0 | 1,000 | 100% |
| MMI HOLDING CO., LTD. | 18,267,987 | 100% | 0 | 0 | 18,267,987 | 100% |
| Allstron Corporation | 1,550,000 | 100% | 0 | 0 | 1,550,000 | 100% |
| MEGTAS CO., LTD. | 400,000 | 80% | 0 | 0 | 400,000 | 80% |
| MPA TRADING COR. | 1,250,000 | 100% | 0 | 0 | 1,250,000 | 100% |
| CHAIN-LOGIC TRADING CORP. (Note 2) | 0 | 0% | 300,100 | Wholly owned by the subsidiary | 300,100 | 100% |
| MPI AMERICA INC. (Note 3) | 0 | 0% | 1,200,000 USD | Wholly owned by the subsidiary | 1,200,000 USD | 100% |
| Lumitek (Changchou) Co. Ltd. (Note 4) | 0 | 0% | 16,000,000 USD | Wholly owned by the subsidiary | 16,000,000 USD | 100% |
| MPI Corporation (Suzhou) (Note 5) | 0 | 0% | 2,000,000 USD | Wholly owned by the subsidiary | 2,000,000 USD | 100% |

Note 1: Long-term investment by the Company
Note 2: An investee of the Company's subsidiary, Chain-Logic International Corp.
Note 3: An investee of the Company's subsidiary, MPA TRADING CORP.
Note 4: An investee of the Company's subsidiary, MMI HOLDING CO., LTD.
Note 5: An investee of the Company's subsidiary, MMI HOLDING CO., LTD.

# Four. Status of Fundraising

## I. Capital Stock and Shares

(I) Source of Capital Stock:

April 30, 2020; Unit: Thousand Shares; NTD thousand

| Year/ Month | Issue price | Authorized capital stock | | Paid-in capital | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Source of Capital Stock | Offset by any property other than cash | Others |
| 1995/07 | 10 | 500 | 5,000 | 500 | 5,000 | Capital of incorporation | None | |
| 1998/10 | 10 | 22,500 | 225,000 | 6,000 | 60,000 | Capital increase in cash by NT$55,000 thousand | None | |
| 2000/07 | 15<br>10 | 22,500 | 225,000 | 10,000 | 100,000 | Capital increase in cash by NT$28,000 thousand<br>Capital increase upon recapitalization of earnings by NT$12,000 thousand | None | |
| 2001/05 | 18<br>10<br>10 | 22,500 | 225,000 | 20,000 | 200,000 | Capital increase in cash by NT$50,700 thousand<br>Capital increase upon recapitalization of earnings by NT$42,000 thousand<br>Capital increase upon recapitalization of employee bonus by NT$7,300 thousand | None | |
| 2002/06 | 10 | 50,000 | 500,000 | 30,000 | 300,000 | Capital increase upon recapitalization of earnings by NT$43,800 thousand<br>Capital increase upon recapitalization of employee bonus by NT$6,200 thousand | Succeed to shares of Chain-Logic International Corp., NT$50,000 thousand | Note 1 |
| 2003/09 | 10 | 50,000 | 500,000 | 33,434 | 334,340 | Capital increase upon recapitalization of earnings by NT$30,000 thousand<br>Capital increase upon recapitalization of employee bonus by NT$4,340 thousand | None | Note 2 |
| 2004/08 | 10 | 50,000 | 500,000 | 33,803 | 338,031 | Conversion of convertible bonds to common stock NT$3,691 thousand | None | |
| 2004/09 | 10 | 50,000 | 500,000 | 37,672 | 376,719 | Capital increase upon recapitalization of earnings by NT$33,434 thousand<br>Capital increase upon recapitalization of employee bonus by NT$5,254 thousand | None | Note 3 |
| 2004/11 | 10 | 50,000 | 500,000 | 38,217 | 382,174 | Conversion of convertible bonds to common stock NT$5,454 thousand | None | |
| 2005/02 | 10 | 50,000 | 500,000 | 38,877 | 388,775 | Conversion of convertible bonds to common stock NT$6,601 thousand | None | |
| 2005/05 | 10 | 50,000 | 500,000 | 39,556 | 395,556 | Conversion of convertible bonds to common stock NT$6,781 thousand | None | |
| 2005/07 | 10 | 50,000 | 500,000 | 39,576 | 395,765 | Conversion of convertible bonds to common stock NT$208 thousand | None | |
| 2005/09 | 10 | 51,300 | 513,000 | 48,957 | 489,568 | Capital increase upon recapitalization of earnings by NT$81,960 thousand<br>Capital increase upon recapitalization of employee bonus by NT$11,814 thousand<br>Conversion of convertible bonds to common stock NT$30 thousand | None | Note 4 |
| 2005/10 | 10 | 51,300 | 513,000 | 49,253 | 492,533 | Conversion of convertible bonds to common stock NT$2,964 thousand | None | |
| 2006/02 | 10 | 51,300 | 513,000 | 50,479 | 504,785 | Conversion of convertible bonds to common stock NT$12,253 thousand | None | |
| 2006/05 | 10 | 51,300 | 513,000 | 50,724 | 507,236 | Conversion of convertible bonds to common stock NT$2,451 thousand | None | |
| 2006/08 | 10 | 51,300 | 513,000 | 50,815 | 508,145 | Conversion of convertible bonds to common stock NT$909 thousand | None | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2006/09 | 10 | 58,000 | 580,000 | 56,496 | 564,959 | Capital increase upon recapitalization of earnings by NT$50,814 thousand Capital increase upon recapitalization of employee bonus by NT$6,000 thousand | None | Note 5 |
| 2007/08 | 10 | 100,000 | 1,000,000 | 56,501 | 565,005 | Conversion of convertible bonds to common stock NT$45 thousand | None | |
| 2007/09 | 10 | 100,000 | 1,000,000 | 63,676 | 636,758 | Capital increase upon recapitalization of earnings by NT$57,500 thousand Capital increase upon recapitalization of employee bonus by NT$8,118 thousand Conversion of convertible bonds to common stock NT$6,135 thousand | None | Note 6 |
| 2007/10 | 10 | 100,000 | 1,000,000 | 63,679 | 636,789 | Conversion of convertible bonds to common stock NT$30 thousand | None | |
| 2008/01 | 10 | 100,000 | 1,000,000 | 63,736 | 637,363 | Conversion of convertible bonds to common stock NT$574 thousand | None | |
| 2008/09 | 10 | 100,000 | 1,000,000 | 71,105 | 711,053 | Capital increase upon recapitalization of earnings by NT$64,570 thousand Capital increase upon recapitalization of employee bonus by NT$9,120 thousand | None | Note 7 |
| 2009/08 | 10 | 100,000 | 1,000,000 | 73,311 | 733,111 | Capital increase upon recapitalization of earnings by NT$21,190 thousand Capital increase upon recapitalization of employee bonus by NT$868 thousand | None | Note 8 |
| 2009/12 | 10 | 100,000 | 1,000,000 | 74,084 | 740,841 | Conversion of employee options to common stock NT$100 thousand Conversion of convertible bonds to common stock NT$7,630 thousand | None | |
| 2010/04 | 10 | 100,000 | 1,000,000 | 77,449 | 774,486 | Conversion of employee options to common stock NT$11,190 thousand Conversion of convertible bonds to common stock NT$22,455 thousand | None | |
| 2010/07 | 10 | 100,000 | 1,000,000 | 77,629 | 776,291 | Conversion of employee options to common stock NT$11,082 thousand Conversion of convertible bonds to common stock NT$3,200 thousand | None | |
| 2010/10 | 10 | 100,000 | 1,000,000 | 77,697 | 776,970 | Conversion of employee options to common stock NT$5,376 thousand Conversion of convertible bonds to common stock NT$200 thousand | None | |
| 2011/01 | 10 | 100,000 | 1,000,000 | 77,985 | 779,854 | Conversion of employee options to common stock NT$13,149 thousand Conversion of convertible bonds to common stock NT$8,900 thousand | None | |
| 2011/04 | 10 | 100,000 | 1,000,000 | 78,464 | 784,644 | Conversion of employee options to common stock NT$39,613 thousand | None | |
| 2011/08 | 10 | 100,000 | 1,000,000 | 78,549 | 785,494 | Conversion of employee options to common stock NT$7,030 thousand | None | |
| 2011/10 | 10 | 100,000 | 1,000,000 | 78,590 | 785,904 | Conversion of employee options to common stock NT$3,299 thousand | None | |
| 2012/01 | 10 | 100,000 | 1,000,000 | 78,602 | 786,024 | Conversion of employee options to common stock NT$931 thousand | None | |
| 2012/04 | 10 | 100,000 | 1,000,000 | 78,605 | 786,054 | Conversion of employee options to common stock NT$233 thousand | None | |
| 2012/07 | 10 | 100,000 | 1,000,000 | 78,610 | 786,104 | Conversion of employee options to common stock NT$388 thousand | None | |
| 2013/07 | 10 | 100,000 | 1,000,000 | 78,612 | 786,123 | Conversion of employee options to common stock NT$143 thousand Cancellation and capital reduction by 8 shares upon shareholders' waiver to hold shares | None | |
| 2015/01 | 10 | 100,000 | 1,000,000 | 79,536 | 795,364 | Conversion of convertible bonds to common stock NT$92,400 thousand | None | |
| 2015/05 | 10 | 100,000 | 1,000,000 | 79,605 | 796,054 | Conversion of convertible bonds to common stock NT$6,900 thousand | None | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2017/08 | 10 | 100,000 | 1,000,000 | 79,901 | 799,014 | Conversion of convertible bonds to common stock NT$26,700 thousand | None | |
| 2019/08 | 10 | 120,000 | 1,200,000 | 79,915 | 799,154 | Conversion of convertible bonds to common stock NT$1,000 thousand | None | |
| 2020/01 | 10 | 120,000 | 1,200,000 | 79,959 | 799,587 | Conversion of convertible bonds to common stock NT$3,000 thousand | None | |

Note 1: Approval letter by Securities and Futures Commission, Ministry of Finance under (91) No. 09100127510 dated June 3, 2002.
Note 2: Approval letter by Securities and Futures Commission, Ministry of Finance under Tai-Chi-Zheng (I) No. 0920129426 dated July 2, 2003.
Note 3: Approval letter by Securities and Futures Commission, Ministry of Finance under Tai-Chi-Zheng (I) No. 0930126472 dated June 15, 2004.
Note 4: Approval letter by Securities and Futures Bureau, Financial Supervisory Commission of Executive Yuan under Jin-Guan-Zheng (I) No. 0940124109 dated June 16, 2005.
Note 5: Approval letter by Securities and Futures Bureau, Financial Supervisory Commission of Executive Yuan under Jin-Guan-Zheng (I) No. 0950130971 dated July 17, 2006.
Note 6: Approval letter by Securities and Futures Bureau, Financial Supervisory Commission of Executive Yuan under Jin-Guan-Zheng (I) No. 0960036186 dated July 12, 2007.
Note 7: Approval letter by Securities and Futures Bureau, Financial Supervisory Commission of Executive Yuan under Jin-Guan-Zheng (I) No. 0970031732 dated June 25, 2008.
Note 8: Approval letter by Securities and Futures Bureau, Financial Supervisory Commission of Executive Yuan under Jin-Guan-Zheng (I) No. 0980034020 dated July 8, 2009.

| Type of share | Authorized capital | | | Remark |
|---|---|---|---|---|
| | Outstanding shares | Unissued shares | Total | |
| Common stocks | 79,958,726 shares | 40,041,274 shares | 120,000,000 shares | TWSE stock |

(II) Composition of shareholders

April 30, 2020

| Composition of shareholders / Quantity | Government Apparatus | Financial Organization | Other Juristic Persons | Individual | Foreign Institution and Foreigner | Total |
|---|---|---|---|---|---|---|
| Number of person | 1 | 11 | 192 | 20,025 | 77 | 20,306 |
| Shares held | 3,209,000 | 934,352 | 9,241,631 | 54,322,495 | 12,251,248 | 79,958,726 |
| Ratio of shareholding | 4.01% | 1.17% | 11.56% | 67.94% | 15.32% | 100.00% |

(III) Diversification of equity

April 30, 2020

| Range of Shares | Number of Shareholders | Shares held | Ratio of shareholding (%) |
|---|---|---|---|
| 1～ 999 | 11,084 | 192,448 | 0.24 |
| 1,000～ 5,000 | 7,401 | 14,683,647 | 18.36 |
| 5,001～ 10,000 | 892 | 7,092,269 | 8.87 |
| 10,001～ 15,000 | 313 | 4,074,834 | 5.10 |
| 15,001～ 20,000 | 182 | 3,378,360 | 4.23 |
| 20,001～ 30,000 | 158 | 4,027,614 | 5.04 |
| 30,001～ 40,000 | 79 | 2,830,077 | 3.54 |
| 40,001～ 50,000 | 45 | 2,088,932 | 2.61 |
| 50,001～ 100,000 | 71 | 5,013,586 | 6.27 |
| 100,001～ 200,000 | 39 | 5,692,779 | 7.12 |
| 200,001～ 400,000 | 25 | 7,006,089 | 8.76 |

| Range of Shares | Number of Shareholders | Shares held | Ratio of shareholding (%) |
|---|---|---|---|
| 400,001～ 600,000 | 11 | 5,283,167 | 6.61 |
| 600,001～ 800,000 | 0 | 0 | 0.00 |
| 800,001～ 1,000,000 | 0 | 0 | 0.00 |
| 1,000,001 and above | 6 | 18,594,924 | 23.26 |
| Total | 20,306 | 79,958,726 | 100.00 |

Preferential shares: None

(IV) Roster of Major Shareholders

April 30, 2020

| Shares / Name of Major Shareholders | Shares held | Ratio of shareholding (%) |
|---|---|---|
| MPI Investment Co., Ltd. | 8,334,626 | 10.42 |
| MJC | 3,506,576 | 4.39 |
| Labor pension fund under the new system | 3,209,000 | 4.01 |
| Ko, Chang-Lin | 1,425,994 | 1.78 |
| Arcadia Emerging Markets Equity Small Cap Fund managed by HSBC as the custodian | 1,068,728 | 1.34 |
| Credit Suisse First Boston (CSFB) managed by Standard Chartered Bank as the custodian | 1,050,000 | 1.31 |
| Tsai, Min-Xun | 600,000 | 0.75 |
| Li, Tu-Cheng | 539,349 | 0.67 |
| DFA Emerging Market Core Securities Investment Accounts commissioned to Citibank | 499,000 | 0.62 |
| MORGAN STANLEY & CO. INTERNATIONAL LIMITED Account managed by HSBC as the custodian | 483,000 | 0.60 |

(V) Information on market value, net value, earnings and dividends per share in the most recent two years

Unit: NTD; share

| Year / Item | | | 2018 | 2019 | Ending April 30, 2020 |
|---|---|---|---|---|---|
| Market price per share (Note 1) | Highest | | 73.70 | 84.10 | 83.20 |
| | Lowest | | 47.50 | 52.40 | 43.00 |
| | Average | | 62.07 | 69.82 | 67.91 |
| Net value per share | Before distribution | | 51.40 | 54.66 | 56.50 |
| | After distribution | | 49.36 | 52.16 | None |
| EPS | Weighted average shares | | 79,901,388 | 79,958,726 | 79,958,726 |
| | EPS (Note 2) | before retroactive | 4.19 | 5.36 | 1.80 |
| | | after retroactive | 4.19 | 5.36 | 0 |
| Dividend per share | Cash dividend | | 2.0 | 2.5 | 0 |
| | Free-Gratis | Retained shares distribution | 0 | 0 | 0 |

| | | | | | |
|---|---|---|---|---|---|
| | dividends | Capital surplus shares distribution | 0 | 0 | 0 |
| | Retained dividend | | 0 | 0 | 0 |
| Return on investment analysis | Price-Earnings Ratio (Note 3) | | 14.81 | 13.03 | 0 |
| | Dividend Yield (Note 4) | | 31.04 | 27.93 | 0 |
| | Cash dividend yield (Note 5) | | 3.22% | 3.58% | 0 |

Note 1: The Company has traded on Taiwan Stock Exchange as of January 6, 2003.

Note 2: If it is necessary to make adjustment retroactively due to Free-Gratis dividends, please identify the EPS before and after adjustment.

Note 3: Price-Earnings Ratio=Average Closing Price per Share in current year/Earnings per Share

Note 4: Dividend Yield=Average Closing Price per Share in current year/Cash Dividend per Share

Note 5: Cash Dividend Yields=Cash Dividend per Share/Average Closing Price per Share in current year

Note 6: Please identify the net value per share and EPS available in the latest quarterly financial information audited (reviewed) by the independent auditor before the date of publication of the annual report, and the information available until the date of publication of the annual report in the other sections.

(VI) Dividend Policy and the Status of Implementation

1. The dividend policy defined by the Articles of Incorporation

Article XX: Where the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and no more than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.

The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.

The remuneration for employees may be paid in the form of stock or in cash. Employees entitled to receive the distribution includes those of the affiliated companies who meet specified requirements.

If the Company has a profit in the total final account of a fiscal year, it shall first pay the taxes, make up any losses from past years, and then make contribution of 10% as the statutory reserve unless the statutory reserve reaches the amount of the Company paid-in capital. After appropriating or reversing a special reserve in accordance with the laws and regulations, the proposal for the distribution of the profits concerning the balance along with the accumulative undistributed profit is formulated by the Board of Directors and submitted to the shareholder's meeting to decide the distribution or reservation.

Article XX-I: The Company is now at the growth stage of industrial development. As such, the dividend policy shall be conditioned by the investment environment, capital needs, domestic and international competition, and capital budgeting of the Company at present moment and in the futures. Shareholders interest, balance of dividend payment and long-term financial planning shall also be considered with the Board of Directors to design the

plans for income distribution annually as required by law, and present before the General Meeting of Shareholders for ratification.
The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.

2. Allocation of dividends proposed at the shareholders' meeting in the current year
The Company's motion for allocation of earnings 2019 has been resolved by the directors' meeting on March 26, 2020, and the cash dividends to shareholders, NT$199,896,815 (NT$2.5 per share), were scheduled to be allocated.
3. Whether the dividend policy is expected to suffer material changes: No.

(VII) The effect of stock dividend as proposed in this General Meeting on the operation performance and earnings per share of the company: None, as no bonus share distribution was proposed at the meeting.

(VIII) Remuneration to employees and directors/supervisors

1. Proportion or scope of remuneration to employees and directors/supervisors as stated in the Articles of Incorporation:

Article XX: Where the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and no more than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.
The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.
The remuneration for employees may be paid in the form of stock or in cash. Employees entitled to receive the distribution includes those of the affiliated companies who meet specified requirements.
If the Company has a profit in the total final account of a fiscal year, it shall first pay the taxes, make up any losses from past years, and then make contribution of 10% as the statutory reserve unless the statutory reserve reaches the amount of the Company paid-in capital. After appropriating or reversing a special reserve in accordance with the laws and regulations, the proposal for the distribution of the profits concerning the balance along with the accumulative undistributed profit is formulated by the Board of Directors and submitted to the shareholder's meeting to decide the distribution or reservation.

Article XX-I: The Company is now at the growth stage of industrial development. As such, the dividend policy shall be conditioned by the investment environment, capital needs, domestic and international competition, and capital budgeting of the Company at present moment and in the futures. Shareholders interest, balance of dividend payment and long-term financial planning shall also be considered with the Board of Directors to design the

plans for income distribution annually as required by law, and present before the General Meeting of Shareholders for ratification.
The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.

2. The accounting in the case of deviation from the basis for stating remuneration to employees and directors/supervisors, the basis for calculating the quantity of stock dividends to be allocated, and the actual allocation:
Where the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and no more than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph. If the actual distributed amount resolved by a shareholders' meeting is different from the estimate, the difference shall be treated as a change in accounting estimate and stated as the income of next year.

3. Allocation of remuneration approved by the board of directors:
The Company's motion for allocation of earnings 2019 has been resolved by the directors' meeting on March 26, 2020. The allocation of earnings approved by the directors' meeting is stated as following:
(1) Remuneration allocated in cash, NT$43,950,000 for employees and NT$9,920,000 for directors/supervisors, was not different from the estimation in the year when expenses were recognized.
(2) Proposed amount of employees' remuneration in shares as a percentage to the current period net profit after tax and the total amount of employees' remuneration: None

4. Actual payment of employees'/directors'/supervisors' remuneration for the previous year (including the number of shares allocated, the sum of cash paid, and the price at which shares were issued), and any differences from the figures estimated (explain the amount, the cause, and treatment of such discrepancies).

Unit: NTD$

| Items | Amount |
|---|---|
| Employees' cash remuneration | 34,144,000 |
| Remuneration of the directors and supervisors | 9,603,000 |

The actual allocation of 2018 remuneration to employees and directors/supervisors has no discrepancy in the recognized amount.

(IX) Repurchase of the Company's shares: None

## II. Issuance of Corporate Bonds (including ECB):

(I) Issuance of Corporate Bonds:

April 30, 2020

| Type of corporate bond (Note 2) | 4th domestic unsecured convertible corporate bond |
|---|---|
| Issue (offering) date | August 15, 2018 |
| Book Value | NT$100,000 |
| Issuance and trading location (Note 3) | None |
| Exercise Price | NT$100,000 |
| Total Amount | Total issued amount: NT$1,000,000,000<br>Par value: NT$100,000 (issued by 100.1% of the par value) |
| Interest Rate | The coupon rate is 0% |
| Term | 5 years, expiry date: August 15, 2023 |
| Guaranteeing institution | None |
| Trustee | Land Bank of Taiwan |
| Underwriting institution | KGI Securities |
| Certifying attorney | Handsome Attorneys-at-Law<br>Peng Yi-Cheng, Attorney-at-Law |
| CPA | Nexia Sun Rise CPAs & Co.<br>CPA Wu, Kuei-Chen and CPA Chen, Tsan-Huang |
| Repayment terms | Those converted to the Company's common stock according to the Regulations, or those redeemed upon exercise of the put option, or those redeemed by the Company earlier pursuant to the Regulations, or those repurchased by the Company for cancellation, the others would be repaid in cash in full amount upon maturity. |
| Outstanding principal balance | NT$959,300,000 |
| Terms and conditions for redemption or early repayment | (I) From the date following expiration of one month upon offering of the bonds until 40 days prior to expiration of the duration, if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may send the "Notice of Call" to be matured in 30 days (the time limit shall commence from the Company's service date, and the record date of the call shall be the date when the time limit expires, and the conversion suspension period for the corporate bonds should not fall in the time limit) to the bond holders (those referred to the roster of creditors within five business days prior to the service date of the Notice of Call, while the investors who acquire the bonds through exchange or due to other causes subsequently, if any, shall be notified by public |

| | |
|---|---|
| | notice) via registered mail within 30 business days. Meanwhile, the Company shall ask Taipei Exchange in writing to post a public announcement, and shall call the corporate bonds held by the bond holders at the face value in cash within five (5) business days upon the record date.<br>(II) From the date following expiration of one month upon offering of the bonds until 40 days prior to expiration of the duration, if the balance of the outstanding bonds is less than 10% of the initial total issue price, the Company may send the "Notice of Call" to be matured in 30 days to the bond holders (those referred to the roster of creditors within five business days prior to the service date of the Notice of Call, while the investors who acquire the bonds through exchange or due to other causes subsequently, if any, shall be notified by public notice) via registered mail (the time limit shall commence from the Company's service date, and the record date of the call shall be the date when the time limit expires, and the record date of the call shall be the date when the time limit expires, and the conversion suspension period for the corporate bonds should not fall in the time limit). Meanwhile, the Company shall ask Taipei Exchange in writing to post a public announcement, and shall call the corporate bonds held by the bond holders at the face value in cash within 5 business days upon the record date. |
| Restrictive clause (Note 4) | None |
| Name of credit rating agency, dates of rating, and ratings awarded | None |
| Attached with other rights: Amount of common stock, GDR/ADR or other securities already converted until the date of publication of the annual report (swapped or subscribed for) | Already converted to common stock totaling NT$4,000,000 |

| | | |
|---|---|---|
| | Regulations for Issuance and Conversion (Swap or Subscription) | Unless (1) the period for suspension of transfer registration of common stock required by laws, (2) 15 business days prior to the date for suspension of transfer registration of allocated dividends requested by the Company, the date for suspension of transfer registration of cash dividends or the date for suspension of transfer registration of cash capital increase until the record date for allocation of rights, and (3) from the record date for capital decrease until the day prior to the trading of stock swapped upon capital decrease, the bond holders may ask Taiwan Depository & Clearing Corporation (TDCC) (hereinafter referred to as the "Depository Corporation") via the securities firm to ask the Company's stock agent to convert the Bond into the Company's common shares pursuant to the Regulations at any time from the day following expiration of one month after the Bond is issued until expiration of the Bond. |
| Status of potential dilution of equity by the Regulations for Issuance and Conversion, Swap or Subscription, and the issuing terms and conditions, and impact thereof on the existing shareholders' equity. | | The convertible bonds would not dilute the Company's equity until the creditors request the conversion. The creditors may choose the timing more favorable to them to proceed with the conversion in the duration of conversion and, therefore, the dilution of equity would be deferred. As to the effect on the existing shareholders' equity, though the convertible corporate bonds would increase the Company's debt prior to conversion, the debt would be reduced upon conversion of the convertible bond into common stock and the shareholders' equity would be increased relatively, and the net worth per share as well. Therefore, the shareholders' equity would be protected better, in the long term. |
| Name of custody institute | | None |

Note 1: The corporate bonds include public offering corporate bonds and private placement corporate bonds. The public offering corporate bonds mean those validated (approved) by the Commission. The private placement corporate bonds mean those resolved and approved by the Board of Directors.
Note 2: The number of spaces shall be adjusted subject to the frequency of issuance.
Note 3: To be specified, in the case of ECB.
Note 4: For example, restricting release of cash dividends or external investment, or request for maintenance of specific proportion of assets, et al.
Note 5: The private placement, if any, shall be identified in a prominent manner.

Note 6: In the case of convertible corporate bond, exchangeable corporate bonds, corporate bonds issued under the categorical reporting method or corporate bonds with warrants, it is necessary to further disclose the information about convertible corporate bonds, exchangeable corporate bonds, corporate bonds issued under the categorical reporting method and corporate bonds with warrants by nature in a column format.

(II) Information about convertible corporate bonds:

| Type of corporate bond (Note 1) | | 4th domestic unsecured convertible corporate bond | | |
|---|---|---|---|---|
| Item \ Year | | 2018 | 2019 | Ending April 30, 2020 (Note 4) |
| Market price of convertible corporate bonds (Note 2) | Highest | 106.20 | 121.05 | 120.00 |
| | Lowest | 93.50 | 94.75 | 99.95 |
| | Average | 102.50 | 106.63 | 110.59 |
| Conversion price | | 71.50 | January 1, 2019~September 9, 2019 Conversion price 71.50<br>September 10, 2019~December 31, 2019 Conversion price 69.20 | 69.20 |
| Issue (offering) date and conversion price at the time of issuance | | September 07, 2018 71.50 | September 07, 2018 71.50 | September 07, 2018 71.50 |
| Approaches to perform the conversion (Note 3) | | Offering of new shares | Offering of new shares | Offering of new shares |

Note 1: The number of spaces shall be adjusted subject to the frequency of issuance.
Note 2: In the case of multiple trading locations of ECB, please identify it by the trading locations.
Note 3: Deliver issued shares, or issue new shares.
Note 4: To specify the information available in the current year until the date of publication of the annual report.

(III) Status of corporate bonds issued under the categorical reporting method:

April 30, 2020

| | |
|---|---|
| Total amount to be raised and issued | NT$1,001,000,000 |
| Total raised amount (including issue (offering) date and conversion price at the time of issuance) | Issuing date: August 15, 2018<br>Issuing amount: NT$1,001,000,000 |
| Balance of corporate bonds issued under categorical reporting method | NT$959,300,000 |
| Scheduled period for issuance of corporate bonds not offered | None |

## III. Issuance of Preferred Shares: None

## IV. Status of GDR/ADR: None

## V. Status of employee stock options: None

## VI. Restriction on Employee Share Subscription Warrant: None

## VII. Mergers and Acquisitions, or as Assignee of New Shares Issued by Another Company: None

## VIII. Implementation of Capital Utilization Plan:

(I) Contents of the Plan:

1. Date and Ref. No. of the approval letter from the competent authority in charge of the relevant industry: Approval letter under Ching-Kuan-Cheng-Fa-Tze No. 1070325999 dated July 26, 2018 issued by Financial Supervisory Commission.

2. Total fund required by the Plan: NT$1,002,000 thousand.

3. Source of fund:
   (1) Issue 10,000 4th domestic unsecured convertible corporate bonds at par value of NT$100,000; total issue nominal amount: NT$1,000,000 thousand; issued by 100.1% of the par value; duration: 5 years; total issue amount: NT$1,001,000 thousand
   (2) The balance, NT$1,000 thousand, was paid from the own capital.

4. Projects and expected progress

Unit: NTD thousands

| Project | Expected date of rectification | Total fund | Planned progress of the fund utilization |
|---|---|---|---|
| | | | Q3, 2018 |
| Repayment of bank loan | Q3, 2018 | 1,002,000 | 1,002,000 |
| Projected benefits | The Company plans to pay NT$1,002,000 thousand as the bank loan repayment. According to the repayment amount and interest rate on borrowings, we estimate the Company can save NT$3,084 thousand in interest expenditure and NT$12,331 thousand each year subsequently. | | |

(II) Status:

Unit: NTD thousands

| Project | Status | | | Status of progress, ahead or behind, and the cause and corrective action plan |
|---|---|---|---|---|
| Repayment of bank loan | Expenditure (NTD Thousand) | Scheduled | 1,001,000 | To be executed in full per the initial progress of fund. |
| | | Actual | 1,001,000 | |
| | progress (%) | Scheduled | 100.00 | |
| | | Actual | 100.00 | |
| Total | Expenditure (NTD Thousand) | Scheduled | 1,001,000 | To be executed in full per the initial progress of fund. |
| | | Actual | 1,001,000 | |
| | progress (%) | Scheduled | 100.00 | |
| | | Actual | 100.00 | |

# Five. Overview of operation

## I. Business Contents

(I) Business lines:

1. The Company primarily engages in:
   (1) Maintenance, trading, and R&D of computer and peripheral devices;
   (2) Import/export and trading of semiconductor components, electronic parts, and silicon integrated circuits;
   (3) Import/export and trading of precision automated control machines;
   (4) Import/export and trading of machinery and spare parts thereof;
   (5) General import/export and trading. (Except for those that require special permission)
   (6) Processing, maintenance, manufacturing, import/export and trading of semiconductor testing components and parts;
   (7) Quotation and bidding for said products on behalf of domestic and foreign suppliers;
   (8) Machinery Equipment Manufacturing.
   (9) Wholesale of Machinery.
   (10) Retail Sale of Machinery and Equipment.

2. Weight of business

   The Company's consolidated net operating revenue was NT$ 5,515,200 thousand in 2019, primarily generated from the sale of wafer probe cards and photoelectric semiconductor automated equipment. The weight of business for various products (services) is stated as following:

Unit: NTD thousands

| Product (service) | 2019 | |
|---|---|---|
| | Net sales | Weight of business % |
| Wafer probe card | 2,817,653 | 51.09% |
| Photoelectric semi-conductor automated equipment | 1,377,237 | 24.97% |
| Others | 1,320,310 | 23.94% |
| Total | 5,515,200 | 100.00% |

3. Current products (services) of the Company
   (1) Wafer probe card
   (2) Wafer probe card servicing
   (3) Wafer testing and sorting equipment
   (4) Testing, sorting, and optical inspection equipment for photoelectric and semiconductor wafers and components

4. New products (services) under development

(1) Wafer probe card

(a) In order to deal with the technology upgrade in the production process of the semi-conductor wafer, the Company will continue to develop the wafer probe cards with ultra-fine pitch technology, high pin count, high density, (high I/O number), less cleaning and multi-DUT.

(b) The Company will continue to develop the wafer probe card for high-speed test to keep up with the development trend of high-speed chips.

(c) In order to deal with the need for the development of advanced packaging technology and various applied products, the Company plans to continue developing advanced wafer probe cards for testing of highly integrated FOWLP, KGD, flip chips, CIS, TSV, WLP, SiP, SoC, 2.5D and 3D stacked chips.

(2) Photoelectric semi-conductor automated equipment

(d) The VCSEL wafer level burn-in system (Wafer level burn-in system) optimizes VCSEL production process equipment.

(e) The market demand of Micro Display is gradually increasing; therefore, the relative mass-production equipment of the wafer level probing system and Sub-Module probing system has become our main development plan.

(f) We will continue the development of VCSEL photoelectric components in the field of 3D sensing, wafer level photoelectric probing system, packaging level probing system and module level probing device.

(II) Overview of industry

1. Overview and development of industry

(1) Status of the global business

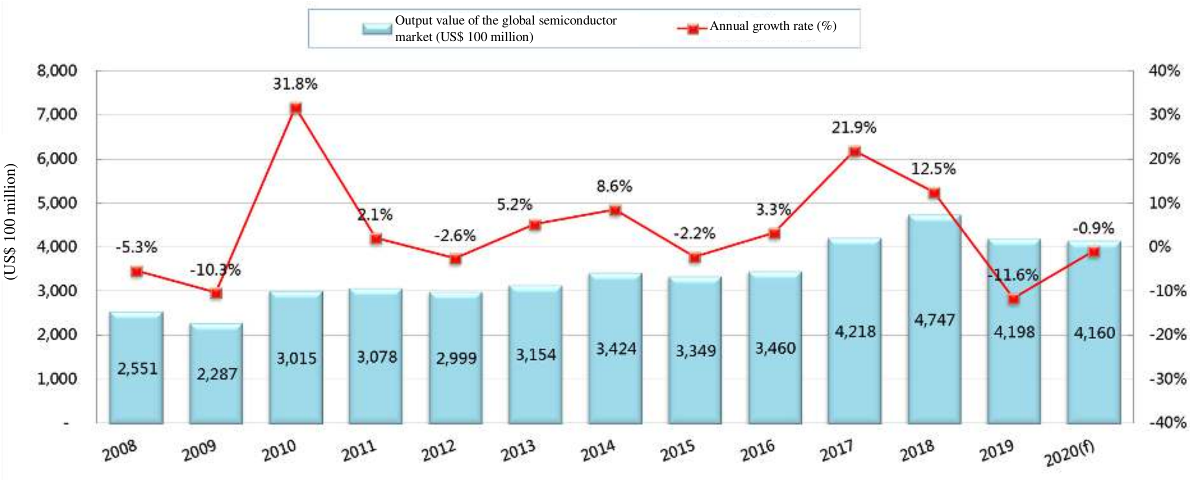
(a) Wafer probe card (semi-conductor industry)

A probe card is a printed circuit board (PCB) filled with probes, used at the stage of probe test, i.e., an interface between an electronic test system and a semiconductor wafer. The fabricated wafers should be tested for their quality through probe cards to determine which ICs (Integrated Circuit, dies) are good or bad. The process allows the fine-quality IC to enter the packaging step, and the poor-quality IC will not enter the packaging step to avoid unnecessary waste of the cost.

Each IC requires at least one corresponding probe card. The operating principle of the probe card is to perform the probe test using the probe needles on it and the pad or bump on the device under test (DUT) while performing electrical measurement using I/O signals. Furthermore, peripheral testing instruments and software control are used to perform automation measurement.

The probe card is applied during the wafer probing whose purpose is to prevent defects from being packaged in the later stage. As the packaging cost accounts for a larger portion of the overall IC production cost, we can obviously control the package cost and prevent unnecessary waste by preventing defects from being packaged in the later stage. In addition, electronic devices with slim structure, multiple functions and lower power consumption have become the trend. Advanced packaging cost will increase as a result. This is why wafer probe test technology with lower cost has become very important in the IC industry.

Global semiconductor market forecast




Source of data: Gartner (2020/04), compilations by MPI Corporation

The wafer probe card is closely related to the semi-conductor industry. The rise and fall of the semi-conductor market will affect the wafer probe card market directly.

When 2020 started, global economic conditions pointed to 8 percentage sales growth in the global IC market with effective destocking after it fell by 15% in 2019, based on the forecast report compiled by IC Insights in early 2020. However, the outbreak of the Covid-19 virus in China paralyzed the global economy and the IC market. The impact of Covid-19 has truly transformed into a worldwide issue and affected the global semiconductor sales. IC Insights published its report in mid March. When it was released, the expectation at that time was that the majority of the impact on the global economy and IC market from Covid-19 would primarily be from market and production disruptions within China. The IC market forecast will decline.

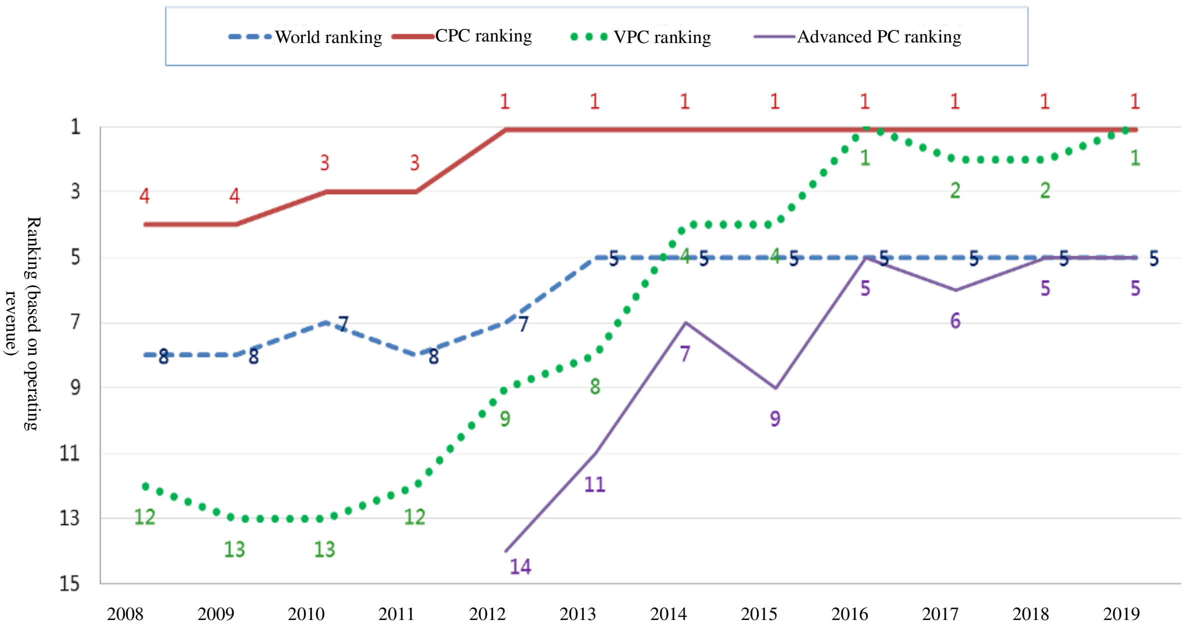
Due to the impact of Covid-19 on semiconductor supply and demand, worldwide semiconductor revenue is forecast to decline 0.9% to USD $416 billion in 2020, according to Gartner, Inc., a global research and advisory firm.

While the market will decline throughout 2020, it was estimated that in the first half of 2020, the hyperscale data center and communications infrastructure sectors will prove more resilient with continued strategic investment required to support increased remote working and online access.

Strong demand from cloud service providers in the first half of 2020 will push pricing and revenue higher in server DRAM. Non-memory semiconductor markets will experience a significant reduction in smartphone, automobile and consumer electronics production and be heavily impacted across the board.

In general, the 2020 semiconductor market may be turbulent but the demands for semiconductor components still exist. The growth trend of the semiconductor-related components will benefit the packaging and testing industry.

MPI's ranking in the global probe card market




Source of data: VLSI Research Inc. (2019/5), compilations by MPI Corporation

According to the survey report of global probe card suppliers made by the VLSI Research Inc., MPI ranked the 5th place among other suppliers in 2013. Since then, we have kept investing resources in R&D and expanded the sale in order to maintain the outstanding achievement and to pursue more excellent ranking. In 2019, MPI Corporation ranks No. 5 of all global manufacturers of probe cards; where it has the largest global market share of Epoxy/Cantilever probe cards; in the market of vertical probe cards, it ranks No.1 in the world with a high market share; in the market of advanced probe cards, it has the fifth largest market share in the world.

Both our production value of probe cards and the global ranking gradually grow year by year. We have earned ourselves the leading place in the market. The operational strategies emphasize the R&D investment and technology innovation. We will keep growing by adopting leading-edge technology to maintain our competitive advantages.

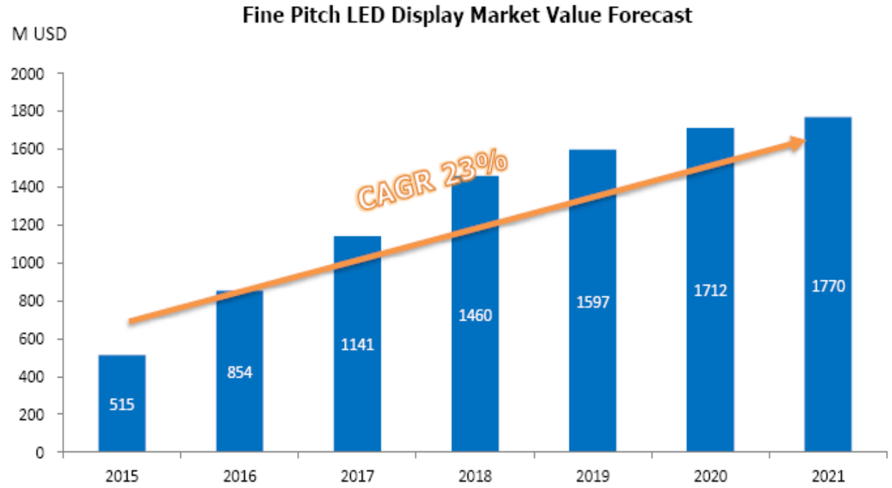
(b) Automated photoelectric semi-conductor equipment (LED industry)

A light-emitting diode (LED) is a semiconductor diode that can emit light with a specific wavelength. It is power-saving, shock-proof and its blink speed is quick. Therefore, it can be applied on a variety of fields. The process of LED may be categorized into the up-stream, mid-stream and down-stream stages. The up-stream stage refers to manufacturing the raw materials of LED such as single wafer, single crystal bar and epi-wafer. The mid-stream stage refers to epi-wafer machining, electrode and etching manufacturing and probing. The down-stream stage refers to the packaging process. The automated photoelectric semi-conductor equipment developed and manufactured by the Company provides a movable and supportive automated platform for the wafer level and IC level probing after the LED process and after/before the IC cutting for the mid-stream suppliers. Since the IC of LED is small, a piece of wafer with the size of 2 to 4 inches contains more than 10 thousand ICs. This leads to longer probing time and higher requirement and dependency for the probing device. The automated photoelectric semi-conductor equipment of the Company has advantages such as the ability to move and lift quickly. It can perform positioning with high accuracy and is highly reliable. The equipment is an indispensable tool during function testing for the LED manufacturers.

There are many kinds of LED products. Based on the wavelength, they can be categorized into visible LED and invisible (infrared rays). LED is a product of civilization that can be seen in the daily life of the modern people in the 21st Century. LED is small, energy-saving and it gives off lower heat and has longer life span. With the breakthrough of the advanced brightness technology of red, blue, green, white light, the visible LED has become the primary product type we adopt.

With the back-light and illumination technology, LED finds a broad application in a variety of fields. With the demand for high-brightness applications in the market, LED now can be used on indoor and outdoor large screens and displays. As the LED manufacturing process technology has been continuously improving, the Fine Pitch LED Display is highly likely to replace LCD & DLP for large video walls. The evaluation for the industry points out that the fine pitch LED display will become a product with the highest growth rate in the future years. With the increasing need for higher resolution, the market will grow quickly and more and more manufacturers will devote themselves to the development of related products.

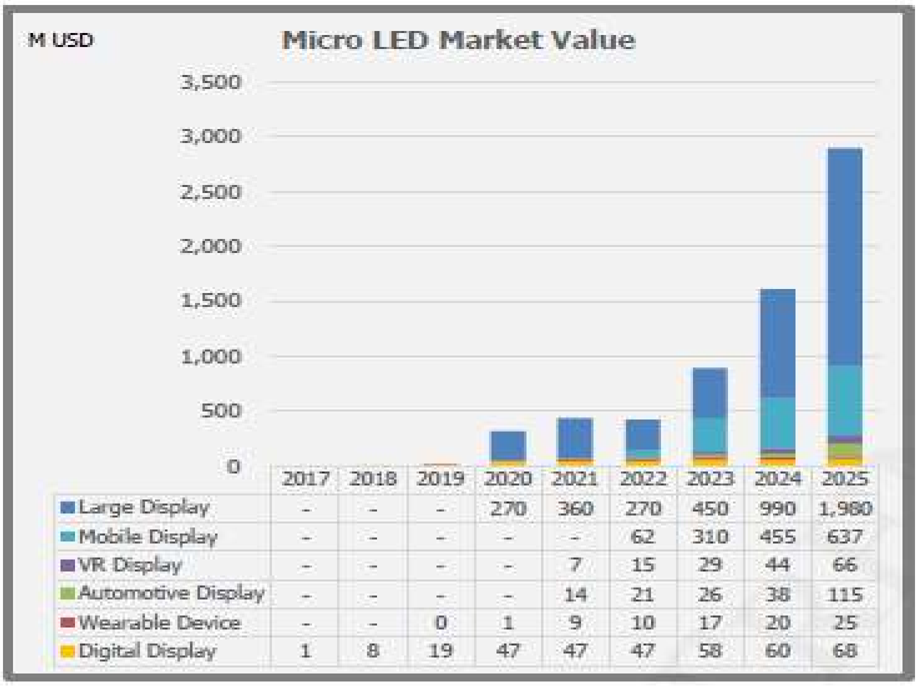
Fine pitch LED Display Market Value Forecast




Source of data: Report of LEDinside in 2017

The market of the fine pitch LED display is growing rapidly. The technology of the next generation, micro LED display technology, is developing as well. According to the analysis of the research institution, LEDinside, the performance of micro LED is extraordinary. It can be used in watches, cell phones, displays for cars, AR/VR, displays and TVs. Considering the cost and technology, micro LED might be more suitable to be used in advanced TVs, displays and displays in vehicles. LEDinside predicts that micro LED will become the main stream for larger size display screens. It will take up 68% of the production value of the LED application in 2025.

2017 - 2025 Micro LED Market Value Forecast

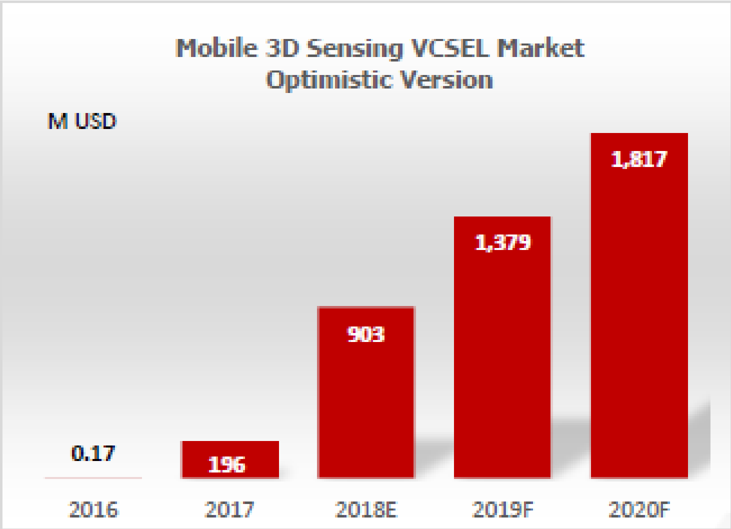



| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|
| Large Display | - | - | - | 270 | 360 | 270 | 450 | 990 | 1,980 |
| Mobile Display | - | - | - | - | - | 62 | 310 | 455 | 637 |
| VR Display | - | - | - | - | 7 | 15 | 29 | 44 | 66 |
| Automotive Display | - | - | - | - | 14 | 21 | 26 | 38 | 115 |
| Wearable Device | - | - | 0 | 1 | 9 | 10 | 17 | 20 | 25 |
| Digital Display | 1 | 8 | 19 | 47 | 47 | 47 | 58 | 60 | 68 |

Source of data: Report of LEDinside in 2018

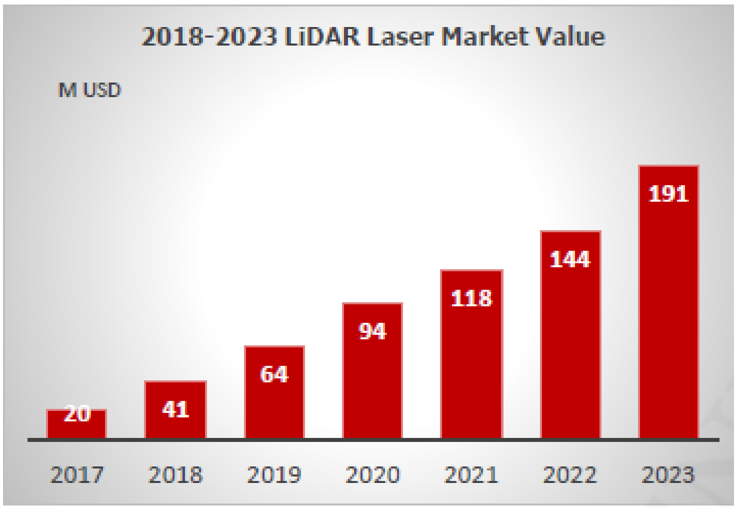
Infrared ray sensing elements are found in the cell phone sensing, light detection and ranging, optical sensing elements. The new application of the infrared ray sensing elements has brought about lots of business opportunities for the industry. Especially, after the 3D facial recognition technology is introduced on the smart phones, more companies around the globe are attracted to the development of relative applications. The infrared ray technology used on LiDAR for cars are growing stably. Once traditional car companies introduce the technology, the LiDAR technology for cars will extend even more.

2018 - 2020 Mobile 3D Sensing VCSEL Market




Source of data: Report of LEDinside in 2019

2019-2023 LiDAR Laser Market Value




Source of data: Report of LEDinside in 2019

(2) Status of domestic industry

(a) Wafer probe card (semi-conductor industry)

The semiconductor industry is one of the most important industries in

Taiwan. With the active support from the Government and much effort of the industry for decades, a comprehensive supply chain has been formed for the semiconductor industry; there is a complete industry structure and professional division of labor system. Professional companies in Taiwan have been engaged in the IC design in the upstream sector, wafer fabrication in the midstream sector, and IC packaging as well as testing in the downstream.

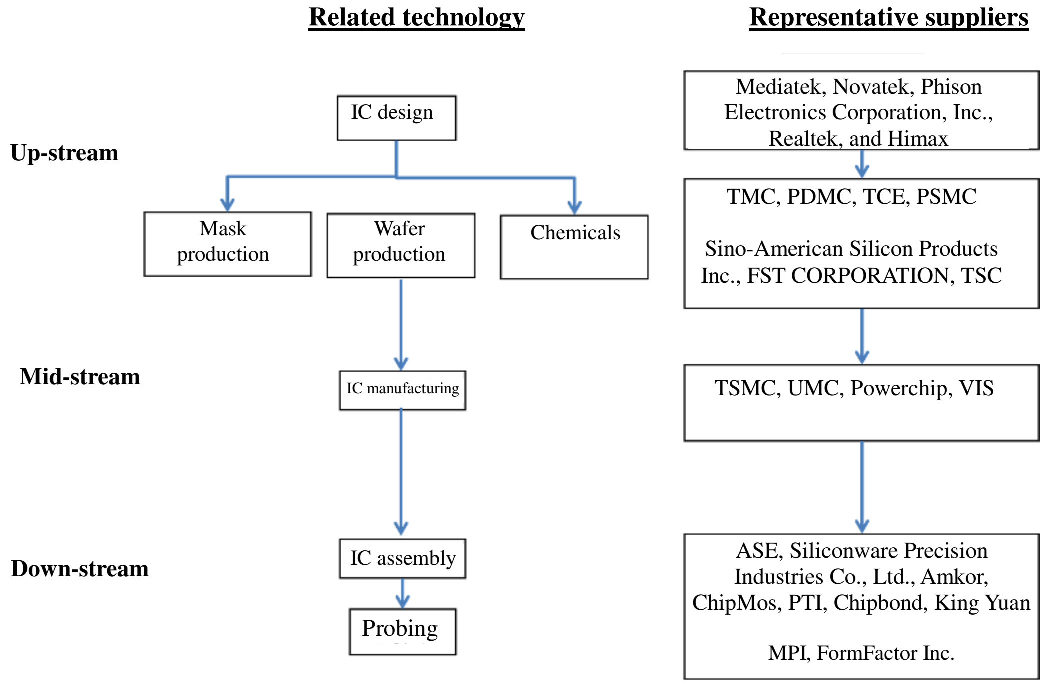
According to the IEK, ITRI, the output value of the Taiwanese IC industry (including the four sub-industries, IC design, IC fabrication, IC packaging, and IC testing) in Q4 2019 reached NT$ 754.3 billion with 4.5% quarter-over-quarter and 9.8% year-over-year.

The IC design industry benefits from the order transfer effect as international companies have started using IC design products of Taiwanese companies. This has driven the growth of IC design houses. In Q4 2019, the output value of the Taiwanese IC design industry reached NT$ 189.1 billion, which increased by 1.7% when compared to the previous quarter.

For IC fabrication, the foundry industry benefits from the demands for smartphones, HPC, 5G, and IoT, etc. which has spurred its output vale; for memory and other fabrication, the demands for DRAM and ROM have declined, which made the revenues of companies decline quarter-over-quarter. Fortunately, it is estimated that the demand in 2020 will emerge again, which promotes the performance of relevant companies. According to the statistics, the output value of the IC fabrication industry in Taiwan in Q4 2019 reached NT$ 432.6 billion, which increased by 5.9% when compared to Q3 2019.

For IC packaging and testing, the demands for end products of related high-end AI and IoT applications have been increasing, which drives the demands for heterogeneous integration of chips. In addition, the packaging and testing industry in Taiwan has the technical capacity and can meet the needs of chip integration through production capacity planning and advanced packaging technology development. In Q4 2019, the Taiwanese IC packaging and testing industry grew by 4.4% compared with the previous quarter, and had a total output value of NT$ 139 billion.

Relation Diagram for up-stream, mid-stream and down-stream dealers in the semi-conductor industry




Source of data: MPI (2020/4)

The semi-conductor industry has a close positive relationship with the global economic conditions. If the global economy is brilliant, the overall semi-conductor industry and the manufacturing sector will grow stably. This will help the growth and demand of the advanced packaging industry. With the large scale of growth of the Internet devices, the demand for data processing, computing and storage increases greatly. It helps the IoT technology, AI and high performance computing become more mature. The need for the AI and IoT end products will increase dramatically. Moreover, industrial smart manufacturing, electronics for vehicles and smart appliances have become more common. They are the new force that pushes the semi-conductor industry to keep expanding.

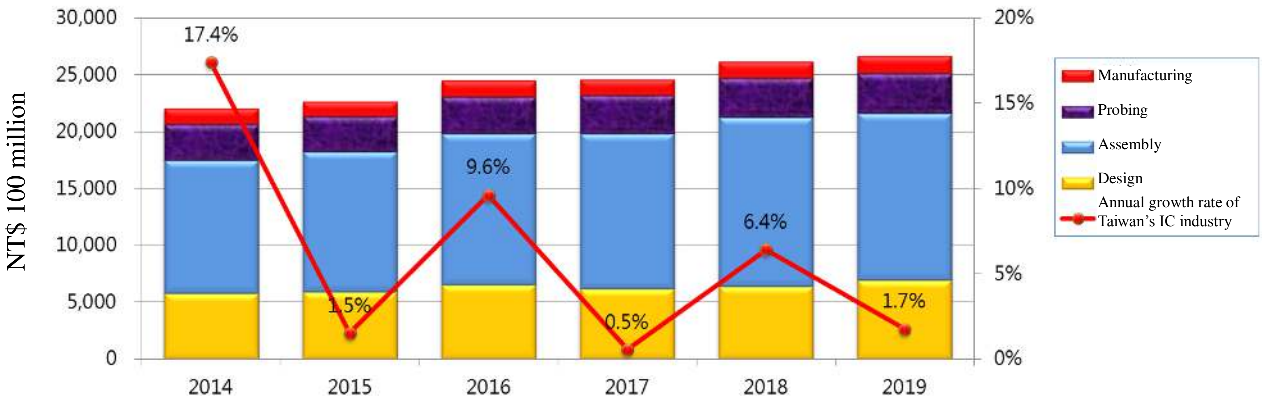
Output value of Taiwan's IC industry from 2014 to 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Design | 5,763 | 5,927 | 6,531 | 6,171 | 6,413 | 6,298 |
| Assembly | 3,160 | 3,099 | 3,238 | 3,330 | 3,445 | 3,463 |
| Probing | 1,379 | 1,314 | 1,400 | 1,440 | 1,485 | 1,544 |
| Manufacturing | 11,731 | 12,300 | 13,324 | 13,682 | 14,856 | 14,721 |
| Wafer OEM | 9,140 | 10,093 | 11,487 | 12,061 | 12,851 | 13,125 |
| Memory manufacturing | 2,591 | 2,207 | 1,837 | 1,621 | 2,005 | 1,596 |
| Output value of Taiwan's IC industry | 22,033 | 22,640 | 24,493 | 24,623 | 26,199 | 26,656 |
| Yearly growth rate | 17.4% | 1.5% | 9.6% | 0.5% | 6.4% | 1.7% |

Note 1: Unit in NT$ thousands.
Note 2: IC industry output value = Those of the IC design industry + IC fabrication industry + IC packaging industry + IC testing industry

Source of data: IEK, ITRI (2020/02), charts prepared by MPI Corporation (2020/04)

2014 - 2019 IC Industry Value and Annual Growth in Taiwan




Source of data: IEK, ITRI (2020/02), charts prepared by MPI Corporation (2020/04)

The demands for 5G mobile phones and communication equipment, high-performance computing, cloud computing, automotive products, IoT, and other applications have driven the growth of the semiconductor market, and promoted the improvement of semiconductor packaging and testing technologies. Therefore, the IC packaging industry has moved toward an advanced and state-of-art packaging technology from low-level packaging technology. Taiwan has the most comprehensive packaging as well as testing strength, and the heterogeneous integration, packaging, and testing capabilities for chips, which can meet the needs of global electronic end-user products for highly integrated and high-efficient chips. The probe card industry relies significantly on the semi-conductor industry. Thus, the advanced packaging need due to the end-application, the continual growth of the packaging market, or the new material introduction in the semi-conductor industry will increasingly promote the growth of the probe card market.

(b) Automated photoelectric semi-conductor equipment (photonics automation industry)

3D sensing has become a trend. Many domestic companies with the ability of GaAs process have started to invest in the field of infrared ray applications. On the basis of relative technology such as RF, PA, LED, domestic companies improve their technology rapidly and reach the international standard. The main end application is dominated by the companies abroad. Most of the domestic companies entered the market as an original equipment manufacturer in the beginning.

The LED industry has always been the strength of Taiwan. Taiwan has been the bellwether in the global LED industry since the lighting and backlighting application field in the past. Before the cost of micro LED reduces and the manufacturing problems are solved, mini LED will be the main product of Taiwanese companies. They will try to target the markets of direct-light-type backlight module and RGB display.

The Company continues to focus on the development and application of the engineering and production equipment required in the photoelectric component process. We have earned ourselves a high market share in the field of traditional LED epitaxy testing and sorting equipment. The Company cooperates with the companies that have leading technology and develop all kinds of testing equipment required in the micro LED mass production process. With the rise of the VCSEL infrared ray sensing elements, the Company collaborates with international companies and academic units to improve relevant technologies and make progress with the growth of the industry in the challenging environment.

2. Correlation between the upstream, midstream, and downstream sectors of the industry

The Company's main products include wafer probe cards and automated photoelectric semi-conductor equipment. The complicated machining process in the machinery industry requires lots of components/parts. Therefore, some part machining in the manufacturing process is outsourced to the subcontractors. In terms of the correlation between the up-stream and down-stream in the industry, the Company is identified as a down-stream company engaged in R&D, design & assembly and selling of various wafer probe cards and machines to companies in the semi-conductor and LED industries. The up-stream companies are responsible for supplying parts/components and raw materials including PCB, probes, microscopes, slide rails and automatic control components. The correlation between the up-stream and down-stream companies in the industry is as follows:

A. Wafer probe card:

| Up-stream | Mid-stream | Down-stream |
|---|---|---|
| Measuring instrument industry<br>PCB industry<br>Ceramic industry<br>Synthetic resin manufacturing industry<br>Passive component industry | Probes for probing<br>Special jigs<br>Wafer probe card probing device | IC design industry<br>IC manufacturing industry<br>IC probing industry |

B. Automated photoelectric semi-conductor equipment:

| Up-stream | Mid-stream | Down-stream |
|---|---|---|
| PCB industry<br>Machinery processing industry<br>Automatic control components<br>Measuring instrument industry<br>Computer device industry<br>Optoelectronic components<br>Electronic parts | Computer<br>Automated control testing jig and equipment<br>Probes | LED industry<br>Optoelectronic manufacturing industry<br>Split-type component industry<br>Communication industry |

3. Development trends of products

(1) Wafer probe card (semi-conductor industry)

The development of probe cards synchronizes with the development of the IC industry. For example, 3D IC, Fan-out wafer level packaging (FO WLPs), Chip Scale Package (CSP), Flip Chip Package, Multi Chip Module (MCM), KGD (Known Good Die), Copper Pillar Package, Drawing Chip and high-frequency testing demand are all dependent on various probe card testing technologies. The following ten development trends are concluded from the relation between the overall IC development trend and wafer probe cards:

①Miniaturization of needle gauge

In the Metrology Roadmap 2012 Update, ITRS (International Technology Roadmap for Semiconductors) disclosed that the overall semi-conductor technology would continue to make progress in the miniaturization of circuit interval. In the future, micro technology for IC process and continual miniaturization of the chip size will be the main focus. Better fine pitch technology for the wafer probe cards will be developed to comply with the requirement of IC process.

②Prevention of signal interruption

SoC has become the mainstream in terms of IC development. In the future, the IC process and function will become more complicated. Logic, memory and analog functions will be centralized on one single chip. Therefore, the difficulty for improving the wafer probe test technology will increase. And the technology to prevent signal interruption will become a challenge.

③Application of different semi-conductor materials and technology
The innovation and development of new semiconductor processes and technology will derive different types of chip bonding pads and materials. The probe card technology will vary when using different bonding pad materials with DUT.

④HF high-speed probe card
Due to the increasing demand of 5G communication, automobile electronics, VR wireless transmission, internet application in the recent years, the demand for high-speed communication chips multiplies drastically. The demand drives the development of IC in the high-speed signal communication field. The most important thing in the design of high-speed communication chips is the signal transmission. Therefore, the impedance matching of the signal transmission path and completeness of signal are significant. The circuit design and manufacturing precision of the probe card are the development keys for ensuring the completeness of signal transmission.

⑤Multi-chip parallel testing
The number of 12" FAB grows rapidly. IC probing companies prefer the probe card that is able to complete multi-chip probing with only one contact in order to save the probing time and improve cost effectiveness. To achieve the goal, the number of the chip that can be tested simultaneously must be higher. However, the consistency between DUTs will be more difficult to reach. Moreover, if the simultaneous probing size is bigger, it will be harder to control the flatness. Therefore, better probe card design and manufacturing technology are required.

⑥Low k chip probe card
In the field of RF application, low-k dielectrics are used as connection materials to decrease the RC delay in copper wire connection in the micro semi-conductor process. Most low-k materials are fragile with porosity; thus, it is critical to control the pin pressure range of the probe cards to avoid damaging the chip during wafer probe test.

⑦Few pin cleaning
The poor quality of pin contact on the probe card will fail to deliver the probing function. Cleaning thus is needed for continuous probing. However, the pin contact will be worn during cleaning the life span of the pin will decrease as a result. Therefore, developing probe cards with less cleaning need has become a key for the product.

⑧High-temperature and low-temperature testing
The applicable working environment of different IC products varies. Using environment (high and low temperature) of the product shall be simulated during wafer probing to ensure the impact of temperature will not affect normal

operation of the electronic circuit of the IC product. Since the impact of temperature is required to be examined in the test, the impact of temperature on the probe card has become a key during product development.

⑨High-power chip testing

The demand for high-power and high-voltage power chips rises rapidly in the industrial, communication and netcom equipment markets. This renders the IC manufacturers to develop related products. Industrial equipment, communication equipment and netcom equipment need high-power chips that allow high current input. Therefore, the development of the probe card applicable to high-power chip probing becomes a significant trend. Developing probes of high current endurance and improving the current endurance of probe cards are the keys for design and development.

⑩Low contact resistance

In order to meet the requirement of energy reduction for the portable mobile devices, the voltage during the operation will become lower. As a result, contact resistance applied when the probe card is probing the chip shall not be too high. Therefore, probe card with low contact resistance is the focus of the design and development.

(2) Optoelectronic semiconductor automation equipment (LED, VCSEL, Micro Display industries)

①Measurement capability

While optoelectronic components are widely applied in diverse industries such as lighting, backlight, 3D Sensing, and Micro Display, for the measurement capability of optoelectronic components, in addition to the basic optical and electrical properties, the optical far field and near field characteristics analysis, measurement of photoelectric current at different wavelengths, measurement of RGB primary colors of the Micro Display, and measurement of optical characteristics at different currents are the key needs in the market in the future.

②Precision

Whether it is Mini LED or Micro LED, the size of the components has been greatly reduced. In addition to the mechanical positioning accuracy requirements, the environmental barrier (shield environment) of the automation equipment is necessary for photoelectric component equipment in the future.

③Automatic production

The capacity of the industry is expanding with the extending application of the photoelectric products, and more automatic equipment is introduced in the process to decrease manual operation. Highly automated equipment in line with the features of the photoelectric components (slim chip, low temperature testing) will be required in the industry.

④Production management

In addition to the output efficiency of a single machine, the output efficiency of a whole production line is also an important indicator for each fab. The integration of the data flow and the most efficient production process, and the application and design of machines must be improved non-stop.

4. Status of competition of products

Name of primary competitor, and business lines or competitive business lines of the competitor

(1) Wafer probe card

According to the survey of VLSI Research Inc. and to our knowledge, there are only few companies engaged in the manufacturing and agency of wafer probe cards domestically. Most of these companies do not trade on the TWSE/TPEx market or are the branches of foreign leading manufacturers. Among the domestic wafer probe card manufacturers, MPI is the only company that is listed as the Top 10 global wafer probe card manufacturers. We have managed to maintain the ranking as one of the Top 5 for a couple of years.

| The others in the same trade | Competitive products |
|---|---|
| FormFactor (a branch company of the U.S.-based FormFactor) | Wafer probe card |
| JEM TAIWAN PROBE CORP. (a company incorporated by Japan-based JEM in Taiwan) | Wafer probe card |
| SV Probe (Taiwan Branch of the U.S.-based SV Probe Group) | Wafer probe card |

(2) Photoelectric semi-conductor automated equipment

The Company's automated photoelectric semi-conductor equipment has earned the recognition from the customers with the outstanding technology and performance. With the growth of the photoelectric industry, more and more local equipment manufacturers start the development of related automated photoelectric semi-conductor equipment. We maintain our leading position in the highly competitive market with our own technology, the philosophy of “Customer First”, and high production volume. The competitors are described as follow:

| The others in the same trade | Competitive products |
|---|---|
| OPTO tech. Co., Japan | Wafer prober<br>Die bonder |
| Fittech Co., LTD | Wafer prober |
| Chroma ATE Inc. | Wafer prober |
| ASM | Die bonder |
| Innobiz, Korea | Die bonder |

| | |
|---|---|
| Cascade, USA | Wafer prober |
| Hauman Technologies Corporation | Wafer prober |
| WeiMin Industrial Co., Ltd. | Wafer prober<br>Die test device |
| SIDEA, China | Wafer prober |
| Han's Photoelectric Equipment Co., Ltd, China | Flip-chip Wafer prober |

(III) Overview of technology and R&D

1. R&D expenses during the most recent year and up to the date of publication of this annual report

Unit: NTD thousands

| Year | 2019 | As of March 31, 2020 |
|---|---|---|
| R&D expenses | 710,627 | 156,528 |

2. Technology or product developed successfully for the last five years

| Year | Technology name/product name |
|---|---|
| 2019 | High-speed spring-type probe card development technology<br>Micro-pitch vertical-type probe card development technology<br>VCSEL wafer class fully automated tri-temp testing equipment S2CT Prober<br>Photo diode multi-band photoelectric current measurement technology<br>Micro LED small contact force prober technology |
| 2018 | WAT probe card used in advanced semi-conductor process<br>Vertical probe card with high current endurance design<br>VCSEL wafer level automated probing device S1 Prober<br>High-speed VCSEL die sorting equipment M60V Sorter<br>VCSEL manual low-temperature testing device LS8T Prober<br>VCSEL TOF package multi-probing equipment LDP80V System |
| 2017 | High-speed vertical probe card development technology<br>Large-size spring-loaded type probe card development technology<br>Large OD micro-distance MEMS type probe card development technology<br>probing system LTP-100<br>VCSEL single chip multi-probing equipment LP76<br>Photo diode photoelectric current and electric capacity measurement technology<br>Micro LED probing system C1 / M1 |
| 2016 | High probing speed cantilever probe card development technology<br>Micro-distance pin pressure vertical probe card development technology<br>MEMS type probe card development technology for mobile communication power amplifier<br>High-speed AOI photoelectric inspection equipment A3000<br>Laser wafer prober W1 / S1 |
| 2015 | Micro-distance spring-loaded type probe card development technology<br>High-current-resistant micro-electromechanical probe card technology |

| | |
|---|---|
| | development technology<br>High-speed LED die sorting equipment M60D<br>Flip chip CSP components Dice identification and positioning prober technology<br>Multi-channel multi-die LED photoelectric prober and measuring technology<br>EEL Laser diode component prober and sorting equipment<br>Photo diode low current probe and measuring technology |

(IV) Long-term and short-term business development plans

1. Long-term business development plans
   (1) Develop the market in the U.S.A. to support customer's need;
   (2) Apply accumulated technology and human resource to develop horizontally in the testing field;
   (3) Training human resources and ability in internationalized division of labor and production & marketing;
   (4) Continue to improve the enterprise's constitution in all respects;
   (5) Accelerate domestic application of thin chips;
   (6) In the case of sufficient sources of materials in the future, extend the business lines of crystal growth fab.

2. Short-term business development plans
   (1) Enhance talent training
   (2) Market development & marketing
   (3) Establish various departments' routine management systems and fulfill departmental management

## II. Overview of market and production & marketing

(I) Market analysis

1. Territories where main products (services) are sold (provided)

The Company primarily sells (provides) the products (services) in Taiwan. Other sales territory includes the USA, Japan, Europe and China. The main wafer foundries, fabless IC design companies and OSAT fabs are all customers of the Company.

2. Market share

MPI specializes in design and manufacturing of semi-conductor wafer probe card for probing, which is the largest manufacturer in the relevant field and the few listed in TPEx in this field. Among the other competitors in the same trade, MPI is the one with the most complete production capacity, R&D and manufacturing ability and financial structure.

According to the global wafer probe cards investigation report published by VLSI Research Inc. in April 2020, MPI Corporation ranks No. 5 of all global probe card companies and is the only one Taiwanese company among top ten global probe card suppliers. It has the largest global market share of Epoxy/Cantilever probe cards. It had the best sales performance in the global market share of Epoxy/Cantilever probe cards in 2019.

In Taiwan, MPI is the leader in the probe card market. Our products include probe cards, cantilever probe cards, vertical probe cards, LCD driver IC, and high-frequency probe cards. Our product quality and sale volume are deemed the indicators for other companies in the industry.

3. Future supply & demand and growth of market

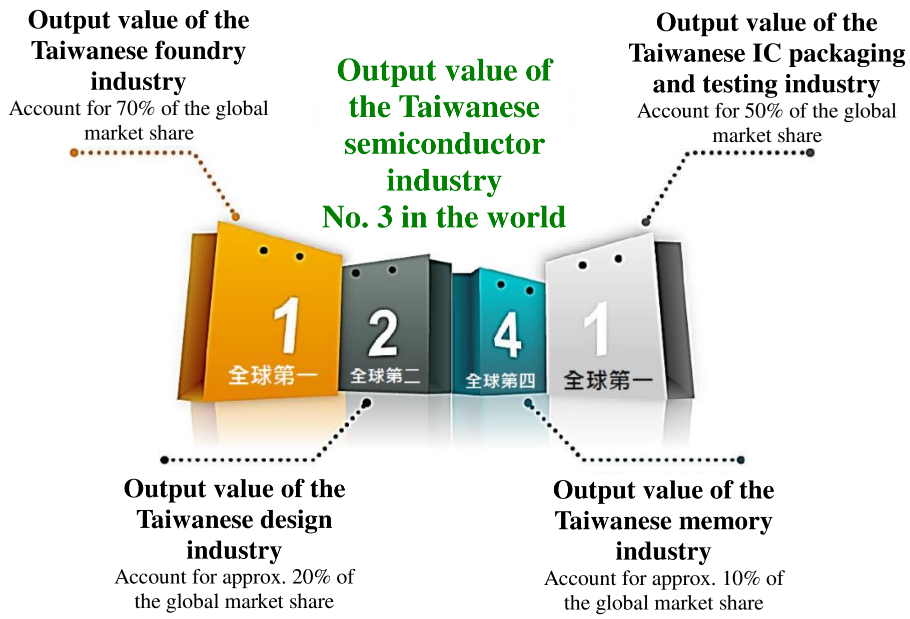
(1) Demand:

Given the increasingly miniaturization of IC assembly volume and increasing assembly cost, wafer tester has become a very important part of the IC process. Therefore, consumption of wafer probe cards and output of IC are somewhat related.

Recently, functions of the consumable electronic products become more complicated and diverse. 5G communication, cloud computing, automobile/industrial application and IoT are developing. Consumers want the products to be light, slim, short, and small. Their demand for functionality increases. Domestic and foreign leading semi-conductor suppliers continue to increase capital expenditure and expand production capacity in order to take up more market share. In addition to the increase of chip production volume, the chip packaging technology aims at slim type chip, low-cost system and high performance. Therefore, the requirement for wafer probing test will become stricter. The design of the probe card is getting complicated, and this results in the requirement for the quality and volume of probe cards from the semi-conductor industry.

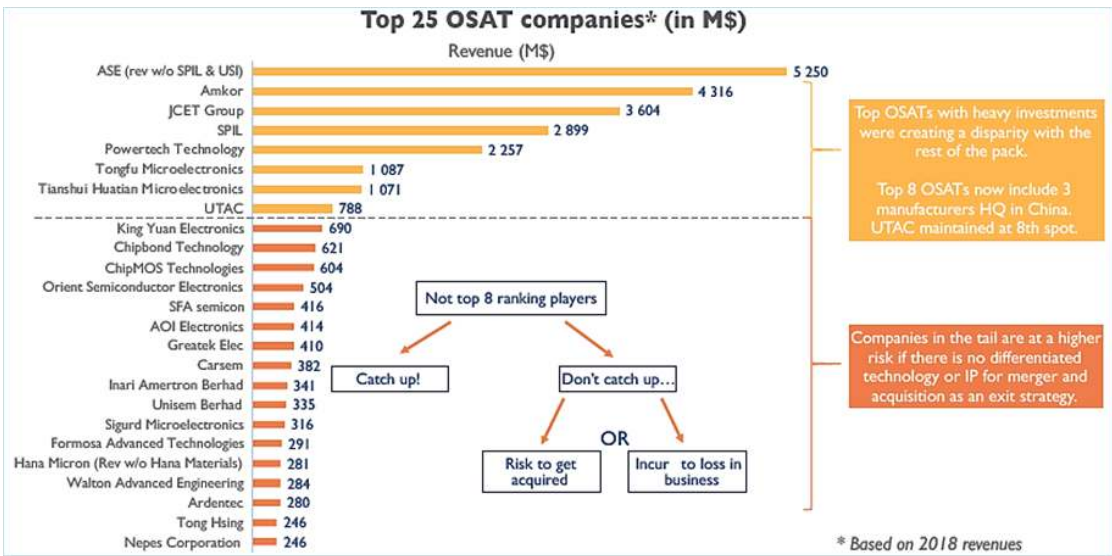
Taiwan owns the most complete cluster and professional division of work in the global semi-conductor industry. Fabless IC design company hires professional wafer foundries to manufacture wafers with its design. After front-end probing, packaging fabs will take over and perform cutting and packaging. Finally, the probing fab will perform the back-end probing.

According to the report by IEK, ITRI, the output value of the Taiwanese foundry industry accounts for 70% of the global market share, and has become No. 1 in the world (the production capacity of all Taiwanese foundries has been No. 1 in the world since 2015). According to the report by IEK, ITRI, the revenues of the Taiwanese semiconductor packaging and testing industry account for 47% of the global semiconductor packaging and testing revenues in 2018, up from 45% in 2017. It is close to half the market share which is No. 1 in the world.




Source of data: IEK, ITRI (2019/08)

Six Taiwanese companies (ASE Technology, Siliconware Precision Industries, PTI, UTAC, KYEC, and Chipbond) are among top 10 global packaging and testing companies, and maintain their leadership in technology. In the future, semi-conductor market will keep expanding in Taiwan. This will push the growth of the probing business and increase the demand for probe cards used on probing directly.




Source of data: YoleDéveloppement(2019/07)

(2) Supply:

The competition in the global probe card market is highly-competitive. Each probe card supplier specializes in different products and technology, and collaborates with different customers. For example, some foreign suppliers tend to have more control in the memory products. MPI Corporation has been a leading company in the domestic market, and specialized in LCD driven IC, vertical type probe cards, and high-speed HF probe cards. Currently, most domestic companies are the long-term customers of MPI Corporation. MPI Corporation has been actively developing major foreign markets to meet the market needs with its probe cards, while having a foothold in Taiwan and keeping a close watch on the development of industrial technologies in Taiwan. Maintaining good customer relationship and customer satisfaction will always be the most important things MPI endeavors to execute.

MPI's manufacturing technology for the products of high pin count, fine pitch and high-speed/high-frequency has matured. We are the leading company with the established technology in the industry and provide the products including cantilever, vertical and MEMS probe cards. We are able to provide probe cards for general probing and high-frequency probing. With the advantages of fine pitch and high DUT count, the wafer probing cost can be saved and the probing precision will increase. MPI will uphold the idea of technology innovation to continue putting ourselves in the R&D work of the advanced probe cards of the next generation.

4. Competition niche
   (1) Provide outstanding and stable technology and products, and build stable cooperative relations with customers in the past years.
   (2) Provide the total solution, together with real time customer service and know how applicable in the related fields.
   (3) Continuous innovation: In the IT industry where technology is improving continuously, in order to meet the requirement for new technology in the industry, the Company has invested a lot of R&D resources to ensure it takes the lead. In recent years, it has spent much in the development of technologies, especially new ones to ensure the future competitiveness and build technical barriers. For the market of advanced vertical probe cards, the Company has direct contact with the foreign IC design companies. We have established a close directly to establish partnership and invest lots of R&D resources to ensure the growth in the future.
   (4) Complete patent layout: A total of 1,102 patents were granted to the Company. The Company owns a total of 795 effective patents now (as of the end of 2019).

5. Positive and negative factors for future development, and response to such factors
   (1) Positive factors
      (a) The product quality and stability have been recognized by domestic/foreign leading semiconductor manufacturers and successfully penetrated into the

international leading suppliers' supply chain. The Company is the best domestically recognized supplier.

(b) The Company has the most comprehensive and diverse R&D capacities and talents, and has been able to carefully perform a complete strategy with respect to the future trend of the industry.

(c) The market tends to demand high pin count, narrow pitch and high speed/high frequency design for transmission signals. The Company has competitive strength in quality and stability of the products in this area. The expanding market demand is expected to boost the Company's operating revenue.

(d) Complete product lineup: The Company has started to produce semi automatic probe card testers to create various automatic applications based on the automatic core technology since 2001. The products are designed to allow rapid replacement to meet different requirements. They are applicable to relative product testing in the semi-conductor industry. This will greatly reduce the risks caused by economic condition change of single-industry structure.

(e) Solid control of the market: The Company has a complete network of sales and service channels to respond to market conditions immediately to stay competitive.

(2) Negative factors

(a) Small-sized suppliers have to engage in price wars to survive in the industry. Therefore, the risk related to the fluctuation of market prices is increasing.

(b) The growth of the traditional wafer probe card market is limited. Therefore, it is necessary to continue developing MEMS and vertical probe card technology to satisfy the need caused by significant advanced packaging demands.

(c) The precision mechanical parts of automated testers are mostly imported from foreign countries. The high acquisition cost and long delivery term cause risk over Taiwan customers’ requirement about delivery term.

(3) Response to such factors

(a) Improve the production quality of wafer probe cards and shorten the delivery term to satisfy customer needs and strive for reasonable prices.

(b) Invest resources in the R&D of technology actively to deal with the new challenge about technology and ensure the leadership in technology.

(c) Enhance the business and market survey about testers to improve the accuracy of the market demand forecast, while maintaining the safety stock of imported components and parts based on the market demands, and semi-finished goods inventory system to ensure fulfillment of delivery term.

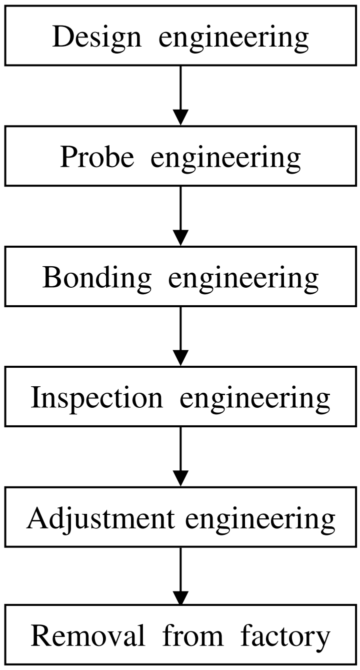
(II) Important purpose and manufacturing processes of main products

（1）Important purpose of main products:

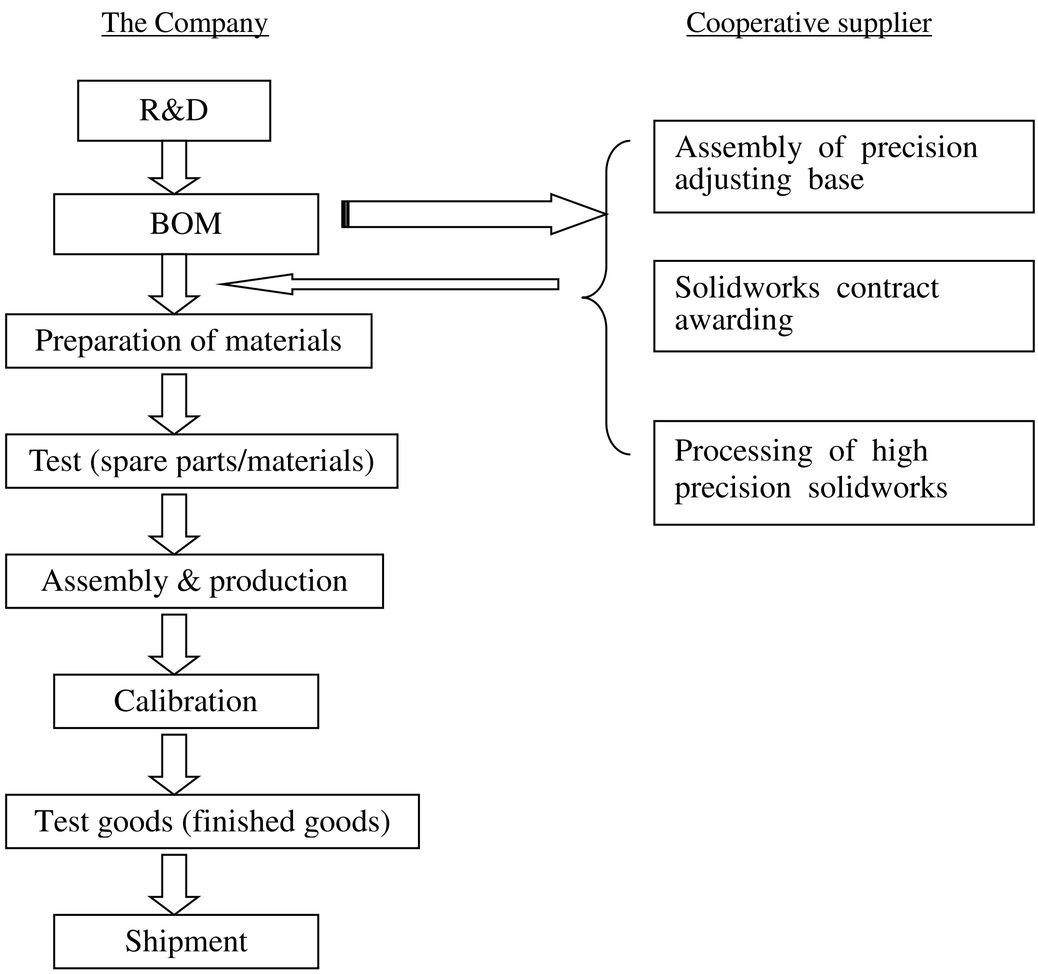
| Product or service | Main purpose or function |
|---|---|
| A. Wafer probe card for wafer probing | The measuring interface at the wafer probing stage is the bridge between the wafer to be tested and the probing device. It is widely used on the wafer level probing for logic components, memory components and LCD driver components. |
| Wafer probe card for LCD Driver IC Final Test | The testing interface after packaging is a bridge of the signal transmission between the LCD Driver IC to be tested, the Tape, and the tester. |
| Vertical probe card | The measuring interface at the wafer probing stage is designed for the wafer probing and need for flip-chip products. |
| MEMS probe card | The measuring interface at the wafer probing stage is designed for the wafer probing and need for flip-chip products. |
| Photoelectric semi-conductor die testing equipment | It is used to test the optical properties of the die and perform data analysis for the bin value after the photoelectric semi-conductor wafer is manufactured. |
| Photoelectric semi-conductor die testing and sorting equipment | It is used on the sorting of dies based on their optical properties after the photoelectric semi-conductor die is manufactured. |
| Photoelectric semi-conductor packaging and bonding equipment | Bonding equipment for photoelectric semi-conductor to packaged to the substrate. |
| Automatic AOI equipment | The equipment will sort out and mark the die with defects by adopting AOI after the photoelectric semi-conductor testing and sorting are complete. |

(2) Manufacturing process of products

(a) Wafer probe card




(b) Automated photoelectric semi-conductor equipment



(III) Supply of main raw materials

The Company's main products include wafer probe cards and photoelectric semi-conductor automated equipment series. The raw materials and supplies required by wafer probe cards include PCB, probe and tube, et al., while those required by photoelectric semi-conductor automated equipment include microscope, machine bed, Bed Type Milling Machine, screw track, motor and industrial computer. The Company maintains fair collaborative relationship with domestic/foreign raw material suppliers, and keeps working with two (2) or more suppliers of key materials and spare parts to keep the procurement flexible and disperse the risk over excessive concentration of raw materials and supplies.

(IV) Name list of principal suppliers and clients

(1) Name list of any suppliers that have supplied 10 percent or more of the Company's procurements in the last two (2) years

Unit: NTD thousands

| 2018 | | | | 2019 | | | | As of Q1 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Amount | Annual net purchase ratio (%) | Relationship with the issuer | Name | Amount | Annual net purchase ratio (%) | Relationship with the issuer | Name | Amount | Net procurement ratio as of Q1 of the current year (%) | Relationship with the issuer |
| Others | 1,781,425 | 100.00% | None | Others | 1,246,642 | 100.00% | None | Others | 328,959 | 100.00% | None |
| | | | | | | | | | | | |
| Net procurement | 1,781,425 | 100.00% | | Net procurement | 1,246,642 | 100.00% | | Net procurement | 328,959 | 100.00% | |

Remark about increase/decrease: The Company does not have any supplier that has supplied 10% or more of the Company's procurements in 2018 and 2019.

(2) Name list of the customer to whom the Company has sold 10 percent or more of the Company's sales in the recent two (2) years

Unit: NTD thousands

| 2018 | | | | 2019 | | | | As of Q1 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Amount | Annual net sales ratio (%) | Relationship with the issuer | Name | Amount | Annual net sales ratio (%) | Relationship with the issuer | Name | Amount | Net sales ratio as of Q1 of the current year (%) | Relationship with the issuer |
| Others | 5,386,356 | 100.00% | None | Others | 5,515,200 | 100.00% | None | Others | 1,360,580 | 100.00% | None |
| | | | | | | | | | | | |
| Net sales | 5,386,356 | 100.00% | | Net sales | 5,515,200 | 100.00% | | Net sales | 1,360,580 | 100.00% | |

Remark about increase/decrease: The Company does not have any customer to whom the Company has sold 10 percent or more of the Company's sales in 2018 and 2019.

(V) Production value over the last two (2) years

Unit quantity: Quantity: probe card: PIN
Prober: set
Value: In NT$ 1,000

| Year / Production Quantity Value / Main products (or by department) | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Production capacity | Production volume | Production value | Production capacity | Production volume | Production value |
| Wafer probe card | 12,360,000 | 11,252,311 | 1,686,130 | 12,350,000 | 10,226,341 | 1,772,911 |
| Automated photoelectric semi-conductor equipment | 800 | 711 | 599,958 | 1,000 | 940 | 926,496 |
| Total | 12,360,800 | 11,253,022 | 2,286,088 | 12,351,000 | 10,227,281 | 2,699,407 |

(VI) Sales value over the last two years

Unit quantity: Quantity: probe card: PIN
Prober: set
Value: In NT$ 1,000

| Year / Sales Quantity Value / Main products (or by department) | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Domestic market | | Export | | Domestic market | | Export | |
| | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Wafer probe card | 5,094,953 | 1,479,426 | 5,352,791 | 1,099,332 | 5,187,691 | 1,877,588 | 2,733,508 | 940,065 |
| Automated photoelectric semi-conductor equipment | 132 | 194,314 | 1,389 | 1,352,550 | 122 | 225,861 | 776 | 1,151,376 |
| Others | | 28,694 | | 1,232,040 | | 262,153 | | 1,058,157 |
| Total | | 1,702,434 | | 3,683,922 | | 2,365,602 | | 3,149,598 |

## III. Employee information

<u>Information about the employees employed for the recent two (2) years and as of the date on which the annual report is printed</u>

| Year | | 2018 | 2019 | As of April 30, 2020 |
|---|---|---|---|---|
| Number of employees | Indirect employees | 875 | 864 | 837 |
| | Direct employees | 648 | 644 | 681 |
| | Total | 1523 | 1508 | 1518 |
| Average age | | 35.3 | 36 | 36.2 |
| Average years of service | | 6.75 | 7.49 | 8.30 |
| Qualification (%) | PhD | 0.26 | 0.27 | 0.26 |
| | Master | 15.56 | 16.24 | 16.08 |
| | College | 68.88 | 68.57 | 68.97 |
| | Senior High School | 14.71 | 14.39 | 14.10 |
| | Below Senior High School | 0.59 | 0.53 | 0.59 |

## IV. Environment protection expenditure information

The Company has been certified by the Environmental Management System through which it monitors the impact of each process on the environment to review and improve them continuously. The Company has established a service unit responsible for managing, maintaining and improving the environmental management system. It is also responsible for the external and internal communication regarding environmental issues. The impact our products have on the environment during the manufacturing process is slight. The main pollution includes waste, air pollution and wastewater. We put emphasis on pollution prevention work to reduce the impact on the environment. MPI endeavors to the establishment of the pollution prevention equipment, hoping to decrease the effect of pollution under effective management. We perform inspections on the operations, and the employees in charge of the production line have better environmental awareness now. The Company establishes annual improvement plan and executes control on the discharge of polluted air, water and waste in the hope to prevent pollution and realize our commitment to reducing environmental impact.

The Company has acquired the certificate for energy management system (ISO50001). We learn from system operation that the main energy consumption occurs in the use of the electricity and, thus, we try to reduce the consumption of the electricity as much as possible. We set the energy performance indicator to an average annual energy saving rate of more than 1%.

(I) According to laws and regulations if it is required to apply for a permit for installing anti-pollution facilities, or permit of pollution drainage, or to pay anti-pollution fees, or to organize and set up an exclusively responsible unit/office for environmental issues, the description of the status of such applications, payment or establishment shall be made:

1. According to the environmental protection laws and regulations, the Company's 2nd Zhubei Plant, Xinpu Plant, and Hukou Plant have obtained the water pollution prevention permit and the operating permits granted to stationary pollution sources; the dedicated wastewater and sewage treatment specialists (Class B) and dedicated air pollution control specialist (Class A) are assigned.
2. The Company reports and pays the pollution prevention fee according to the environmental protection laws and regulations.

(II) Setting forth the Company's investment on the major anti-pollution facilities, the use purpose of such facilities and the possible effects to be produced:
The pollution prevention equipment is used to process the wastewater and gas from the manufacturing process to reduce environmental pollution and comply with the environmental laws and regulations.

(III) Describing the process undertaken by the company on environmental pollution improvement for the most recent 2 fiscal years and up to the annual report publication date. If there had been any pollution dispute, its handling process shall also be described: The Company did not commit any environment pollution incidents in the most recent fiscal year and up to the annual report publication date.

(IV) Any losses suffered by the company in the most recent fiscal year and up to the annual report publication date due to environmental pollution incidents (including any compensation paid and any violations of environmental protection laws or regulations found in environmental inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, the substance of the legal violations, and the content of the dispositions), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: The Company did not commit any incident in the most recent fiscal year and up to the annual report publication date.

(V) Explaining the current condition of pollution and the impact of its improvement to the profits, competitive position and capital expenditures of the company, as well as the projected major environment-related capital expenses to be made for the coming 2 fiscal years: None.

(VI) Information about the Restriction of Hazardous Substances Directive 2002/95/EC (RoHS): Not applicable, due to the characteristics of the Company's business lines.

## V. Labor relations

(I) Availability and execution of employee welfare, education, training and retirement policies. Elaborate on the agreements made between employers and employees, and the protection of employees' rights:

(1) Employee welfare:

The Company drafts and promotes various welfare primarily to ensure the safety and health of the employees in work. The Employee Welfare Committee organized by employees enables employees to enjoy participating in planning and implementation of physical activities, in order to make the activities more characteristic and practical to achieve the purpose of physical and mental relaxation. The Company also realizes that employees symbolize the important drive boosting the Company's growth. In addition to operating said Commission to process employees' welfare, the Company also provides the following benefits:

(a) Good yearly salary for better life quality
(b) Dragon Boat Festival Bonus, Mid-Autumn Festival Bonus, Year-end Bonus, and gift vouchers for the three major holidays
(c) Employee compensation is granted based on the working performance for profit sharing.
(d) Increase salary regularly based on the working performance
(e) Performance bonus will be awarded based on working performance
(f) Subsidies are provided for domestic and overseas trips, books, leisure and entertainment
(g) Flexible paid leaves superior to those specified in the Labor Standards Act
(h) The Company has its own restaurants that provide free meals for employees to care for their health
(i) Free annual physical exams are provided. Professional doctors are invited to provide free health consultation for employees
(j) Subsidies are provided for dormitories, and free parking spaces, fitness centers, and aerobics classrooms are provided
(k) Comfortable library space and free lending of books, newspaper, and magazines
(l) Free instant coffee and tea bags; discounted vouchers are also sold
(m) In addition to marriage and funeral allowance, maternity pension is provided
(n) Comprehensive education and training
(o) Labor insurance, health insurance, group insurance, and labor pension.

(2) Continuing education and training systems, and the status of their implementation:

The Company has the dedicated personnel from HR Dept. arrange and plan the competency education and training courses (including the training courses co-organized by other entities and units commissioned by the Company), to be in line with the Company's operating policy and development objectives, upgrade the employees' quality, enrich their basic knowledge, improve their skills and exert their potential, and also to be in line with the propagation under laws and regulations. The Company's education training systems are categorized into internal training, external training and overseas continuing education to satisfy employees' personal need for self-actualization.

Continuing education and training of employees in 2019:

| Item | Number of class | Total number of person | Total hours | Total fees |
|---|---|---|---|---|
| 1. Orientation training | 3 | 142 | 1,065 | 0 |
| 2. Professional competency training | 192 | 1,448 | 8,562 | 2,062,566 |
| 3. Supervisor's competency training | 52 | 96 | 1,233 | 607,803 |
| 4. General education training | 59 | 321 | 1,567 | 204,480 |
| 5. Self-inspiration training | 37 | 1,581 | 1,708 | 229,311 |
| Total | 343 | 3,588 | 14,135 | 3,104,160 |

(3) Retirement system and the status of its implementation:

**Retirement - Applicable to those who chose the old system**

The Company allocates the retirement reserve fund every month in accordance with the related regulations of the government and established the Labor Retirement Reserve Supervisory Committee to manage matters in relation to retirement.

In any of the following circumstances, the employee shall apply for voluntary retirement:

I. Where the employee ages at least 55 and worked for 15 years or more.

II. Where the employee worked for 25 years or more.

III. Where the employee ages at least 60 and worked for 10 years or more.

In any of the following circumstances, the employee shall be forced to retire:

I. Where the employee ages at least 65.

II. Where the employee is unable to perform his/ her duties due to mental incompetency or disability.

The business entity may request the central competent authority to adjust the age prescribed in Subparagraph 1 of the preceding paragraph if the specific job entails risk, requires substantial physical strength or otherwise of a special nature. However, the age shall not be reduced below 55. The household registration data shall be used as the standard to determine the retirement age of the employee and the age shall be fully calculated since the date of birth.

The criteria for payment of employee pensions shall be as follows:

I. Two bases are given for each full year of service rendered. But for the years of service over 15 years, one base is given for each full year of service rendered. The total number of bases shall be no more than 45. For other years of service, the length of service is calculated as half year when it is less than six months and as one year when it is more than six months.
II. As set forth in Subparagraph 2 of Article 61, an additional 20% on top of the amount calculated according to the preceding subparagraph shall be given to employees forced to retire due to mental incompetency or disability incurred from the execution of their duties.

The retirement pension base shall be one month's average wage of the employee at the time when the retirement is approved. The average wage means the total wages obtained within 6 months before the date of retirement divided by 6. When calculating the average wage, wages and the number of days in the following days or periods shall be excluded from calculation:

I. The date of retirement of the employee.
II. The period of medical treatment for occupational injury.
III. Female employees receiving wages at half of the regular payment because their period of service is less than six months and they are unable to work due to maternity leave.
IV. Where, due to a natural disaster, an unexpected event, or other force majeure, the employer cannot continue business operations which results in employees are unable to work.
V. The period when the employee receiving wages at half of the regular payment or no payment due to ordinary sickness or unpaid leave.

The pensions shall be paid within 30 days from the day of retirement.
The right of a employee to claim retirement benefits shall be aborted if it is not exercised within five years from the month following the effective date of retirement.
Other related matters regarding the retirement is conducted in accordance with the employee retirement plan of the Company and the Labor Standards Act.

**Retirement -- for those who have selected the new labor retirement system**

The Company allocates the labor pension every month in accordance with Labor Pension Act of the government and established the Labor Retirement Reserve Supervisory Committee to manage matters in relation to retirement.
The central competent authority shall entrust the Bureau of Labor Insurance to take charge of the revenues, expenditures and safeguard of labor pension, the imposition of late payment charges and the compulsory execution.

For employees who work for the Company after the enforcement of new labor retirement system, their seniority prior to their application to the new system shall be temporarily reserved. When the labor contract complies with each retirement regulations of the Labor Standards Act, the Company shall use the average wage at the time of terminating labor contract to calculate the severance or retirement payment for the reserved seniority in accordance with the regulations of each laws.

The amount of labor pension borne by the Company shall not be less than 6% of the employee's monthly wage.

The labor pension for an employee counts from the first date of employment to the date that the employee resigns.

The Company shall apply and report in writing to the Bureau of Labor Insurance for terminating the contribution to the pension within 7 days from the date when an employee is on leave without pay, serving in military, suspended from duties because of lawsuit or detained prior to a final judgment of the court.

The labor pension shall be paid and calculated as follows:

I. Employees who begin their work or resign and are re-employed after July 1, 2005, shall be subject to the new labor retirement system. Employee who is sixty years or older (free from the restriction of the years of service) may claim for the accumulated pension in their individual accounts to which the new labor retirement systems apply from the Bureau of Labor Insurance.

II. Monthly pension payment: 1.The principal and accrued dividends from the employee’s individual account of labor pension are paid in fixed installments. The amount of each installment shall be calculated based upon the life chart of annuity, average life expectancy, interest rate and other factors.

III. Lump-sum payment: The principal and accrued dividends from an employee's individual account of labor pension are claimed in lump sum at one time. The return rate generated from the utilization of employees’ pension contributed in accordance with this Article shall not be less than the interest rate of a two-year fixed term deposit by local banks; in the event of any deficiency, the Treasury shall make up the shortfall.

(4) Agreements between labor and management:

The Company is a business applicable under the Labor Standards Act, operates in accordance with Labor Standards Act and has a harmonious labor relation.

(5) Measures aimed at preserving the rights and interests of employees:

The Company upholds the philosophy of sharing earnings with employees by defining the ratio of employee bonus in the Articles of Incorporation to encourage the participation of employees in the management. Meanwhile, the Company has installed the "Opinion Mailbox" to promote the suggestion system. Any approaches for improvement or suggestions helpful for the management or system or facilities of the Company may be sent to the Mailbox. To encourage employees to put forward suggestions, the Company will grant reward subject to the circumstances to provide a communication and opinion exchange channel for employees in life and work.

(6) Work environment and protection measures against the personal safety of employees:

In order to build a safe environment, the Company assigns security guards to guard at the entrance of the Company for 24 hours a day, and installs the access control system and CCTV at various entries/exits. Parking lots are equipped with emergency call buttons. Meanwhile, the Company will inspect and maintain various facilities including the buildings, fire protection equipment, electric equipment, fountains and elevators periodically to protect the personal safety of employees.

The Company has passed the certification of the Occupational Safety and Health Management System (OHSAS) 18001:2007. The dedicated department and personnel for the occupational safety are responsible for the planning, execution and supervision of related operations, educational training and external and internal communication. We established the Occupational Safety and Health Committee in compliance with the Occupational Safety and Health Act and regularly hold a meeting every three months to implement the occupational safety and health management of the employees and further protect the safety and health of employees. The Company has established the disaster prevention and management regulations for labor safety and health, emergent response and safety and health of contractors and has work rules of labor safety and health. Meanwhile, we conduct self-inspection and safety and health education and drills necessary for the prevention of disaster every month to increase employees' awareness of the hazards in the work environment and their emergency response capability and to ensure the efficiency of the implementation of the emergency response plan.

For possible factors that may have impact on the safety and health of employees in the workplace, the Company arranges regular cleaning, disinfection and operating environment inspections. We provide free health examination for the employees every year, employ physicians to factories for health consultation and organize health promotion activities to provide employees with a comfortable and safe work environment.

(II) List any losses suffered by the company in the most recent fiscal years and up to the annual report publication date due to labor disputes (including any violations of the Labor Standards Act found in labor inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, the substance of the legal violations, and the content of the dispositions), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: None.

(III) An estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken: As the Company has a good labor relationship with smooth communication between employees and management, no possible expenses about disputes are expected.

## VI. Major contracts

| Contracts Nature | Concerned party | Duration | Contents | Restrictive clause |
|---|---|---|---|---|
| Lease | Chain-Logic International Corp. | 01.01.2019 ~ 12.31.2019 | Subletting the factory premises building at Wunshan Road, Xinpu Township, Hsinchu County | None |
| Lease | Non-related party | 01.01.2016 ~ 12.31.2020 | Lease agreement for production equipment and machine effective for 5 years | None |
| Long-term loan | Chang Hwa Bank - Chengnei Branch | 11.08.2019 ~ 10.15.2029 | Loan secured by land and building | None |
| Short-term loan | Land Bank of Taiwan - Tunghsinchu Branch | 10.09.2019 ~ 10.09.2020 | Loan secured by land and building | None |
| Agency | Chain-Logic International Corp. | 01.01.2011 ~ undefined (The contract shall be renewed automatically unless otherwise agreed by both parties in writing.) | Exclusive agency and sales of related semiconductor equipment | None |

# Six. Overview of finance

## I. Condensed balance sheet and comprehensive income statement of the most recent five years

(I) Condensed balance sheet and comprehensive income statement - IFRSs

(1) Condensed balance sheet

Unit: NTD thousands

| Item \ Year | | Financial information in the most recent five (5) years (Note 1) 2015 | 2016 | 2017 | 2018 | 2019 | Year-to-date Financial information of the year ending March 31, 2020 |
|---|---|---|---|---|---|---|---|
| Current assets | | 3,145,811 | 3,662,553 | 4,066,956 | 4,889,193 | 4,815,929 | 4,754,566 |
| Real estate, plant and equipment | | 2,962,969 | 2,971,021 | 3,294,748 | 3,030,643 | 2,933,943 | 2,925,516 |
| Intangible assets | | 81,467 | 35,923 | 41,424 | 41,575 | 34,803 | 30,248 |
| Other assets | | 461,224 | 595,497 | 304,551 | 228,787 | 394,226 | 384,781 |
| Total assets | | 6,651,471 | 7,264,994 | 7,707,679 | 8,190,198 | 8,178,901 | 8,095,111 |
| Current liabilities | Before distribution | 2,714,026 | 2,974,021 | 3,267,355 | 3,059,027 | 2,646,350 | 2,336,821 |
| | After distribution | 2,952,842 | 3,308,364 | 3,307,306 | 3,218,830 | 2,846,247 | None |
| Non-current liabilities | | 289,017 | 331,191 | 655,423 | 1,014,240 | 1,152,706 | 1,240,227 |
| Total liabilities | Before distribution | 3,003,043 | 3,305,212 | 3,922,778 | 4,073,267 | 3,799,056 | 3,577,048 |
| | After distribution | 3,241,859 | 3,639,555 | 3,962,729 | 4,233,070 | 3,998,953 | None |
| Equity attributable to the parent company | | 3,632,590 | 3,946,956 | 3,767,978 | 4,106,841 | 4,370,704 | 4,509,144 |
| Capital stock | | 796,054 | 796,054 | 799,014 | 799,014 | 799,587 | 799,587 |
| Capital surplus | | 871,572 | 885,735 | 909,204 | 977,255 | 980,325 | 980,325 |
| Retained earnings | Before distribution | 1,972,546 | 2,295,344 | 2,102,069 | 2,384,802 | 2,659,269 | 2,802,877 |
| | After distribution | 1,733,730 | 1,961,001 | 2,062,118 | 2,224,999 | 2,459,372 | None |
| Other equities | | 26,872 | (30,177) | (42,309) | (54,230) | (68,477) | (73,645) |
| Treasury stock | | (34,454) | 0 | 0 | 0 | 0 | 0 |
| Non-controlling interests | | 15,838 | 12,826 | 16,923 | 10,090 | 9,141 | 8,919 |
| Equity Total Amount | Before distribution | 3,648,428 | 3,959,782 | 3,784,901 | 4,116,931 | 4,379,845 | 4,518,063 |
| | After distribution | 3,409,612 | 3,625,439 | 3,744,950 | 3,957,128 | 4,179,948 | None |

Note 1: Said information was already audited and certified by the CPA.
Note 2: Said titles are free from revaluation of assets.

(2) Condensed comprehensive income statement

Unit: NTD thousands

| Item \ Year | Financial information in the most recent 5 years (Note 1) | | | | | Financial information of current year ending March 31, 2020 |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | |
| Operating revenue | 4,013,170 | 4,961,755 | 4,448,454 | 5,386,356 | 5,515,200 | 1,360,580 |
| Gross profit | 1,796,111 | 2,296,862 | 1,759,911 | 2,140,251 | 2,228,901 | 565,558 |
| Operating profit or loss | 319,840 | 685,942 | 179,679 | 323,282 | 477,248 | 170,253 |
| Non-operating revenue and expense | 39,674 | (34,454) | 25,151 | 74,336 | 11,783 | 978 |
| Profit before tax | 359,514 | 651,488 | 204,830 | 397,618 | 489,031 | 171,231 |
| Net profit of continuing department | 294,141 | 560,837 | 149,267 | 337,628 | 427,984 | 143,799 |
| Loss of discontinued department | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) | 294,141 | 560,837 | 149,267 | 337,628 | 427,984 | 143,799 |
| Other comprehensive income (after tax) | (22,950) | (59,284) | (16,234) | (19,837) | (8,910) | (5,581) |
| Total comprehensive income | 271,191 | 501,553 | 133,033 | 317,791 | 419,074 | 138,218 |
| Net profit attributable to parent company | 294,820 | 563,279 | 145,767 | 334,562 | 428,370 | 143,608 |
| Net profit attributable to non-controlling interests | (679) | (2,442) | 3,500 | 3,066 | (386) | 191 |
| Total comprehensive income attributable to parent company | 272,512 | 504,565 | 128,936 | 315,339 | 420,023 | 138,440 |
| Total comprehensive income attributable to non-controlling interests | (1,321) | (3,012) | 4,097 | 2,452 | (949) | (222) |
| EPS | 3.71 | 7.09 | 1.83 | 4.19 | 5.36 | 1.80 |

Note 1: Said information was already audited and certified by the CPA.

(II) Condensed balance sheet and comprehensive income statement - Individual

(1) Condensed balance sheet

Unit: NTD thousands

| Item \ Year | | Financial information in the most recent five (5) years (Note 1) | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Current assets | | 2,807,369 | 3,226,583 | 3,516,619 | 4,267,706 | 4,028,294 |
| Real estate, plant and equipment | | 2,595,075 | 2,612,388 | 2,931,444 | 2,784,489 | 2,768,524 |
| Intangible assets | | 35,739 | 35,293 | 40,955 | 41,237 | 34,449 |
| Other assets | | 1,097,297 | 1,256,904 | 1,139,890 | 1,040,923 | 1,098,411 |
| Total assets | | 6,535,480 | 7,131,168 | 7,628,908 | 8,134,355 | 7,929,678 |
| Current liabilities | Before distribution | 2,620,794 | 2,907,588 | 3,224,908 | 2,965,539 | 2,313,662 |
| | After distribution | 2,859,610 | 3,241,931 | 3,264,859 | 3,125,342 | 2,513,559 |
| Non-current liabilities | | 282,096 | 276,624 | 636,022 | 1,061,975 | 1,245,312 |
| Total liabilities | Before distribution | 2,902,890 | 3,184,212 | 3,860,930 | 4,027,514 | 3,558,974 |
| | After distribution | 3,141,706 | 3,518,555 | 3,900,881 | 4,187,317 | 3,758,871 |
| Equity attributable to the parent company | | 3,632,590 | 3,946,956 | 3,767,978 | 4,106,841 | 4,370,704 |
| Capital stock | | 796,054 | 796,054 | 799,014 | 799,014 | 799,587 |
| Capital surplus | | 871,572 | 885,735 | 909,204 | 977,255 | 980,325 |
| Retained earnings | Before distribution | 1,972,546 | 2,295,344 | 2,102,069 | 2,384,802 | 2,659,269 |
| | After distribution | 1,733,730 | 1,961,001 | 2,062,118 | 2,224,999 | 2,459,372 |
| Other equities | | 26,872 | (30,177) | (42,309) | (54,230) | (68,477) |
| Treasury stock | | (34,454) | 0 | 0 | 0 | 0 |
| Non-controlling interests | | 0 | 0 | 0 | 0 | 0 |
| Total equity | Before distribution | 3,632,590 | 3,946,956 | 3,767,978 | 4,106,841 | 4,370,704 |
| | After distribution | 3,393,774 | 3,612,613 | 3,728,027 | 3,947,038 | 4,170,807 |

Note 1: Said information was already audited and certified by the CPA.

Note 2: Said titles are free from revaluation of assets.

(2) Condensed comprehensive income statement

Unit: NTD thousands

| Item \ Year | Financial information in the most recent five (5) years (Note 1) | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Operating revenue | 3,838,093 | 4,422,606 | 3,905,162 | 4,704,220 | 4,880,918 |
| Gross profit | 1,677,564 | 2,154,290 | 1,536,466 | 1,887,597 | 1,971,935 |
| Operating profit or loss | 284,107 | 636,251 | 118,816 | 318,625 | 487,427 |
| Non-operating revenue and expense | 54,570 | (2,636) | 53,588 | 62,144 | (4,405) |
| Profit before tax | 338,677 | 633,615 | 172,404 | 380,769 | 483,022 |
| Net profit of continuing department | 294,820 | 563,279 | 145,767 | 334,562 | 428,370 |
| Loss of discontinued department | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) | 294,820 | 563,279 | 145,767 | 334,562 | 428,370 |
| Other comprehensive income (after tax) | (22,308) | (58,714) | (16,831) | (19,223) | (8,347) |
| Total comprehensive income | 272,512 | 504,565 | 128,936 | 315,339 | 420,023 |
| Net profit attributable to parent company | 294,820 | 563,279 | 145,767 | 334,562 | 428,370 |
| Net profit attributable to non-controlling interests | 0 | 0 | 0 | 0 | 0 |
| Total comprehensive income attributable to parent company | 272,512 | 504,565 | 128,936 | 315,339 | 420,023 |
| Total comprehensive income attributable to non-controlling interests | 0 | 0 | 0 | 0 | 0 |
| EPS | 3.71 | 7.09 | 1.83 | 4.19 | 5.36 |

Note 1: Said information was already audited and certified by the CPA.

(3) The names of CPAs conducting financial audits in the most recent five years and their audit opinions.

| Year | Firm Name | Name of CPA | Audit opinions |
|---|---|---|---|
| 2015 | Nexia Sun Rise CPAs & Co. | Wu, Kuei-Chen & Chen, Tsan-Huang | Modified unqualified opinions |
| 2016 | Nexia Sun Rise CPAs & Co. | Wu, Kuei-Chen & Chen, Tsan-Huang | Unqualified opinions |
| 2017 | Nexia Sun Rise CPAs & Co. | Wu, Kuei-Chen & Chen, Tsan-Huang | Unqualified opinions |
| 2018 | Nexia Sun Rise CPAs & Co. | Wu, Kuei-Chen & Chen, Tsan-Huang | Unqualified opinions |
| 2019 | Nexia Sun Rise CPAs & Co. | Chen, Chih-Ling and Chen, Yi-Ling, CPAs | Unqualified opinions |

## II. Financial analysis in the most recent five years

(I) Financial ratio for the most recent five (5) years - IFRSs

| Item (Note 3) \ Year (Note 1) | | Financial information in the most recent five (5) years | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Financial structure | Debt to assets ratio (%) | 45.15 | 45.50 | 50.89 | 49.73 | 46.45 |
| | Long-term funds to PPE ratio (%) | 132.89 | 144.43 | 134.77 | 169.31 | 188.57 |
| Solvency | Current ratio (%) | 115.91 | 123.15 | 124.47 | 159.83 | 181.98 |
| | Quick ratio (%) | 50.99 | 54.01 | 51.98 | 72.68 | 92.88 |
| | Times interest earned ratio | 27.84 | 34.43 | 12.72 | 17.92 | 20.43 |
| Utility | Receivables turnover ratio (time) | 4.97 | 5.81 | 4.99 | 5.38 | 4.64 |
| | Average cash collection days | 73.44 | 62.82 | 73.14 | 67.84 | 78.66 |
| | Inventory turnover ratio (time) | 1.33 | 1.48 | 1.27 | 1.34 | 1.37 |
| | Payables turnover ratio (time) | 4.89 | 6.48 | 6.37 | 7.19 | 7.49 |
| | Average sales days | 274.43 | 246.62 | 287.40 | 272.39 | 266.42 |
| | PPE turnover ratio (time) | 1.56 | 1.67 | 1.42 | 1.70 | 1.85 |
| | Total asset turnover ratio (time) | 0.62 | 0.71 | 0.59 | 0.68 | 0.67 |
| Profitability | ROA (%) | 4.68 | 8.29 | 2.19 | 4.48 | 5.48 |
| | ROE (%) | 7.96 | 14.74 | 3.85 | 8.55 | 10.07 |
| | Income before tax to paid-in capital ratio (%) | 45.16 | 81.84 | 25.64 | 49.76 | 61.16 |
| | Net profit margin (%) | 7.33 | 11.30 | 3.36 | 6.27 | 7.76 |
| | EPS (NT$) (Note 2) | 3.71 | 7.09 | 1.83 | 4.19 | 5.36 |
| Cash flow | Cash flow ratio (%) | -5.82 | 32.59 | -6.92 | 26.36 | 25.39 |
| | Cash flow adequacy ratio (%) | 17.37 | 33.85 | 24.41 | 37.44 | 43.24 |
| | Cash flow reinvestment ratio (%) | -9.89 | 13.45 | -9.56 | 11.11 | 8.62 |
| Leverage | Operating leverage | 4.37 | 2.70 | 7.05 | 4.73 | 3.31 |
| | Financial leverage | 1.04 | 1.03 | 1.11 | 1.08 | 1.06 |

Please describe the causes resulting in changes in financial ratios in the most recent 2 years. (Not required, if the changes are less than 20%.)

(1) Increase in current ratio and quick ratio: This is due to the increase in accounts receivable and decrease in short-term bank loans for the current period.
(2) Increase in ROE: This is due to the increase in the current net income.
(3) Increase in income before tax to paid-in capital ratio: This is due to the increase in the current net income before tax.
(4) Increase in net profit margin and EPS: This is due to the increase in the current net income after tax.
(5) Decrease in the ratio and reinvestment ratio of the cash flow: This is due to the decrease in the current cash inflow from operating activities.
(6) Increase in the cash flow adequacy ratio: This is due to the net decrease in the current inventory.
(7) Decrease in operating leverage: This is due to the increase in the current operating profit.

(II) Financial ratio for the most recent five (5) years - Individual

| Item (Note 3) | Year (Note 1) | Financial information in the most recent five (5) years | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Financial structure | Debt to assets ratio (%) | 44.42 | 44.65 | 50.61 | 49.51 | 44.88 |
| | Long-term funds to PPE ratio (%) | 150.85 | 161.68 | 150.23 | 185.63 | 202.85 |
| Solvency | Current ratio (%) | 107.12 | 110.97 | 109.05 | 143.91 | 174.11 |
| | Quick ratio (%) | 44.71 | 43.14 | 38.31 | 59.03 | 79.99 |
| | Times interest earned ratio | 26.70 | 35.05 | 11.27 | 17.66 | 21.84 |
| Utility | Receivables turnover ratio (time) | 4.43 | 5.47 | 4.82 | 5.00 | 4.10 |
| | Average cash collection days | 82.39 | 66.73 | 75.73 | 73 | 89.02 |
| | Inventory turnover ratio (time) | 1.29 | 1.31 | 1.15 | 1.21 | 1.27 |
| | Payables turnover ratio (time) | 4.95 | 5.87 | 5.93 | 6.62 | 7.25 |
| | Average sales days | 282.95 | 278.63 | 317.39 | 301.65 | 287.4 |
| | PPE turnover ratio (time) | 1.70 | 1.70 | 1.41 | 1.65 | 1.76 |
| | Total asset turnover ratio (time) | 0.60 | 0.65 | 0.53 | 0.6 | 0.61 |
| Profitability | ROA (%) | 4.79 | 8.47 | 2.16 | 4.48 | 5.56 |
| | ROE (%) | 8.01 | 14.86 | 3.78 | 8.5 | 10.11 |
| | Income before tax to paid-in capital ratio (%) | 42.54 | 79.59 | 21.58 | 47.65 | 60.96 |
| | Net profit margin (%) | 7.68 | 12.74 | 3.73 | 7.11 | 8.78 |
| | EPS (NT$) (Note 2) | 3.71 | 7.09 | 1.83 | 4.19 | 5.36 |
| Cash flow | Cash flow ratio (%) | -2.14 | 29.45 | -12.73 | 23.16 | 11.93 |
| | Cash flow adequacy ratio (%) | 18.11 | 34.64 | 19.32 | 31.01 | 31.72 |
| | Cash flow reinvestment ratio (%) | -8.03 | 12.06 | -11.91 | 10.03 | 1.68 |
| Leverage | Operating leverage | 4.86 | 2.68 | 9.24 | 4.41 | 2.97 |
| | Financial leverage | 1.05 | 1.03 | 1.16 | 1.08 | 1.05 |

Please describe the causes resulting in changes in financial ratios in the most recent 2 years. (Not required, if the changes are less than 20%.)

(1) Increase in current ratio and quick ratio: This is due to the decrease in short-term bank loans, accounts payable and advance sale receipts for the current period.
(2) Increase in times interest earned ratio: This is due to the increase in the current net income before tax.
(3) Increase in average cash collection days: This is due to the increase in accounts receivable resulting in the decrease in receivables turnover ratio.
(4) Increase in ROE: This is due to the increase in the currently net income.
(5) Increase in income before tax to paid-in capital ratio: This is due to the increase in the current net income before tax.
(6) Increase in net profit margin and EPS: This is due to the increase in the current net income after tax.
(7) Decrease in the ratio and reinvestment ratio of the cash flow: This is due to the decrease in the current cash inflow from operating activities.
(8) Decrease in operating leverage: This is due to the increase in the current operating profit.

**Equation of financial analysis:**

Note 1: Said information in the most recent five years was already audited or reviewed by the CPA.

Note 2: EPS is calculated based on the quantity of shares under weighted average method after being adjusted retroactively.

Note 3: The equation of said items is stated as following:

1. Financial structure
   (1) Debt to assets ratio = Total liabilities / total assets.
   (2) Long-term funds to PPE ratio = (Total equity+non-current liabilities) / net property, plant and equipment.
2. Solvency
   (1) Current ratio = Current assets / current liabilities
   (2) Quick ratio = (Current assets-inventory-prepayment) / current liabilities
   (3) Times interest earned ratio = Earnings before interest and tax / interest expenses for the period.
3. Utility
   (1) Receivables turnover ratio (including accounts receivable and notes receivable resulting from operation) = Net sales / average balance of accounts receivable (including accounts receivable and notes receivable arising from sales) for the period.
   (2) Average cash collection days = 365 / receivables turnover ratio.
   (3) Average sales days = 365 / inventory turnover ratio.
   (4) Payables (including accounts payable and notes payable arising from sales) turnover ratio = Cost of goods sold / average balance of accounts payable (including accounts payable and notes payable arising from sales) for the period.
   (5) Average sales days = 365 / inventory turnover ratio.
   (6) PPE turnover ratio = Net sales / average net PPE.
   (7) Total asset turnover ratio = Net sales / average total assets.
4. Profitability
   (1) ROA = [Profit and loss after tax + Interest expense × (1- tax rate)] / average total assets.
   (2) ROE = Profit and loss after tax / average net shareholder’s equity.
   (3) Net profit margin = Profit and loss after tax / net sales.
   (4) Earnings Per Share = (income attributable to parent company – dividends from preferred shares) / weighed average quantity of outstanding shares.
5. Cash flow
   (1) Cash flow ratio = Net cash flow from operating activities / current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities in the most recent five years / (capital spending + increase in inventory + cash dividends) in the most recent five years.
   (3) Cash reinvestment ratio = (Net cash flow from operating activities-cash dividends) / (gross of property, plant and equipment+long-term investment+other non-current assets+working capital).
6. Leverage:
   (1) Operating leverage = (Net operating revenue-changed operating costs and expenses) / operating income.
   (2) Financial leverage = Operating income / (operating income-interest expenses).

Note 4: The following shall be considered in assessing the equation Earnings Per Share as aforementioned:

1. Weighted average quantity of shares is on the basis of common stock, not the outstanding shares as of the end of the year.
2. If there is a cash capital increase or treasury transaction, the outstanding period should be considered for weighted-average stock calculation.
3. If any additional shares were issued against retained earnings or capital surplus, the full year or half-year earnings per share must be adjusted proportionally and retroactively, regardless of when the additional stocks were issued.
4. If the preferred stock is unconvertible cumulative preferred stock, the dividend for the year (whether the dividend is paid or not) should be deducted from the net income or added to the net loss . If preference shares were non-cumulative, the preference shares dividends must be deducted from after tax net profit; no adjustment is required from after tax net loss.

Note 5: The following shall be considered in assessing cash flow analysis:

1. Net cash flow from operating activities refers to net cash inflow from operating activities as stated in the Statement of Cash Flow.
2. Capital expenditure refers to the cash outflow for annual capital investments.
3. The increase in inventory is included only when the balance at the ending is greater than that at beginning. If the inventory decreases at the end of the year, it shall be calculated as “zero”.
4. Cash dividend includes cash dividend for common stock and preferred stock.
5. Gross property, plant and equipment refers to the total property, plant and equipment before subtracting by accumulated depreciation.

Note 6: The issuer shall distinguish the operating costs and operating expenses as fixed and floating ones by nature. If any estimation or judgment is involved, please note the reasonableness and consistency.

Note 7: In the case of shares issued by the Company with no par value or a par value other than NT$10 per share, said calculation about the ratio of the paid-in capital shall be replaced by the equity attributable to the parent company identified in the balance sheet.

## III. Supervisors’ Review Report on the Financial Statement for the Most Recent Year:

Please refer to Page 119 of the annual report.

## IV. Financial Statement for the Most Recent Year: Please refer to Pages 198~285 of the annual report.

## V. Standalone Financial Statement for the Most Recent Year audited and certified by the CPA: Please refer to Pages 120~197 of the annual report.

## VI. In the case of any insolvency of the Company and its affiliates in the most recent year and up to the publication date of the annual report, specify its effect on the Company’s financial status: None

# Seven. Review and Analysis of Overview of Finance Status and Performance, and Risk Management

## I. Financial status

Comparative analysis of financial status in the most recent two (2) years

Unit: NTD thousands

| Item \ Year | 2019 | 2018 | Variance | |
|---|---|---|---|---|
| | | | Amount | % |
| Current assets | 4,815,929 | 4,889,193 | -73,264 | -1.50 |
| Real estate, plant and equipment | 2,933,943 | 3,030,643 | -96,700 | -3.19 |
| Intangible assets | 34,803 | 41,575 | -6,772 | -16.29 |
| Other non-current assets | 394,226 | 228,787 | 165,439 | 72.31 |
| Total assets | 8,178,901 | 8,190,198 | -11,297 | -0.14 |
| Current liabilities | 2,646,350 | 3,059,027 | -412,677 | -13.49 |
| Non-current liabilities | 1,152,706 | 1,014,240 | 138,466 | 13.65 |
| Total liabilities | 3,799,056 | 4,073,267 | -274,211 | -6.73 |
| Share capital | 799,587 | 799,014 | 573 | 0.07 |
| Capital surplus | 980,325 | 977,255 | 3,070 | 0.31 |
| Retained earnings | 2,659,269 | 2,384,802 | 274,467 | 11.51 |
| Other equities | (68,477) | (54,230) | -14,247 | 26.27 |
| Total equity | 4,379,845 | 4,116,931 | 262,914 | 6.39 |

(I) Analysis and description of the changes of the increase/decrease ratio: (the change from one period to the next reaches above 20% and the amount of change reaches NT$10,000,000)

(1) Increase in other non-current assets: This is due to the calculation of right-of-use assets under IFRS in the current period.

(2) Decrease in other equities: This is due to the loss of conversion differences in the financial statements of overseas business entities.

(II) Future preventive policies: The finance status of the Company is good and has no material impact on the shareholders' equity.

## II. Financial performance

(I) Comparative analysis of financial performances in the most recent two (2) years

Unit: NTD thousands

| Item \ Year | 2019 | 2018 | Increase (decrease) amount | Change ratio (%) |
|---|---|---|---|---|
| Operating revenue | 5,515,200 | 5,386,356 | 128,844 | 2.39 |
| Operating cost | 3,286,299 | 3,246,105 | 40,194 | 1.24 |
| Gross profit | 2,228,901 | 2,140,251 | 88,650 | 4.14 |
| Operating expense | 1,751,653 | 1,816,969 | -65,316 | -3.59 |
| Operating profit | 477,248 | 323,282 | 153,966 | 47.63 |
| Non-operating revenue and expense | 11,783 | 74,336 | -62,553 | -84.15 |
| Profit before tax | 489,031 | 397,618 | 91,413 | 22.99 |
| Tax expense | 61,047 | 59,990 | 1,057 | 1.76 |
| Current net profit | 427,984 | 337,628 | 90,356 | 26.76 |
| Other comprehensive income | (8,910) | (19,837) | 10,927 | -55.08 |
| Total comprehensive income | 419,074 | 317,791 | 101,283 | 31.87 |

(I) Analysis and description of the changes of the increase/decrease ratio: (the change from one period to the next reaches above 20%)

(1) Increase in the operating profit: The annual revenue of this period increased 2.39% and the cost increased by 1.24% YoY with a decrease of 3.59% in the operating expense YoY, resulting in an increase in the operating profit.

(2) Decrease in non-operating revenue and expenses: This is due to lack of gain on disposal and increase in exchange loss in the current period.

(3) Increase in profit before tax and current net profit: This is due to the increase in the annual operating revenue, gross profit and operating profit.

(4) Decrease in other comprehensive income: This is due to the increase in re-measurement of defined benefit plan recognized in the actuarial report on pension.

(5) Increase in the total comprehensive income for the current period: This is due to the increase in the annual operating revenue, gross profit and operating profit.

(II) Cause of changes of the Company's main business contents: If material changes have occurred or are expected to occur in the operational policies, market conditions, economic environment or other internal or external factors, the fact and their impact on the future financial operations of the Company and the responsive policies of the Company shall be stated: None.

(III) The main factors influencing the expected sales volume in the coming year and the main factors for the Company's expected continued growth or decline of our sales volume: The uncertainty resulted from COVID-19 remains high but the Company still holds a optimistic attitude toward the future growth momentum since we have constantly worked on the research and development to meet the needs of customers.

## (II) Analysis of changes in gross profit

Unit: NTD thousands

| Gross profit | Variance in increase/decrease from one period to the next | Cause of variance | | | |
|---|---|---|---|---|---|
| | | Difference of selling price | Difference of cost price | Difference of sale portfolio | Difference of quantity |
| Wafer probe card | 92,712 | 18,526 | 13,358 | (15,899) | 76,726 |
| Automated photoelectric semi-conductor equipment | (73,072) | (3,971) | (34,244) | (31,509) | (3,347) |
| Subtotal | 19,640 | 14,555 | (20,886) | (47,408) | 73,379 |

Notes to analysis:

The probe card raw materials and supplies price declination was reflected in the cost and thereby resulted in some favorable differences of cost price. Besides, the increase in the market demand for probe cards caused the unit selling price to increase from the previous period, resulting in some favorable difference of selling price. Also, under the impact of the increase in the overall sales, the gross margin was subject to a favorable difference of quantity due to the increase in sales volume. The decrease in the gross margin and increase in the sales volume resulted in unfavorable difference of sale portfolio. Overall, the gross margin of the wafer probe cards in the current period increased by NT$92,712 thousand in comparison to the previous period.

The decrease in the market demand for equipment resulted in an unfavorable difference of quantity and unfavorable difference of selling price. Besides, the increase in the raw materials and supplies price resulted in an unfavorable difference of cost price. The unfavorable difference of cost price, unfavorable difference of selling price and unfavorable difference of quantity resulted in the unfavorable difference of sale portfolio. Overall, the gross margin of the equipment in the current period decreased by NT$73,072 thousand in comparison to the previous period.

## III. Cash flow

(I) Analysis of changes in the cash flow for the most recent two (2) years:

Unit: NTD thousands

| Item \ Year | 2019 | 2018 | Amount of variance | Increase (decrease) ratio (%) |
|---|---|---|---|---|
| Operating activities | 672,005 | 806,427 | -134,422 | -16.67 |
| Investment activities | (326,140) | (214,738) | -111,402 | 51.88 |
| Financing activities | (341,002) | (134,001) | -207,001 | 154.48 |
| Total | 4,863 | 457,688 | -452,825 | -98.94 |

Analysis and description of the changes of the increase/decrease ratio: (the change from one period to the next reaches above 20%)

(1) Investment activities: The increase in cash outflow resulted from lack of gain on disposal of investment in the current period.

(2) Financing activities: The increase in cash outflow resulted from failure to issue corporate bonds to repay the bank loans in the current period.

(II) Liquidity analysis for the most recent two (2) years:

| Item \ Year | 2019 | 2018 | Increase (decrease) ratio (%) |
|---|---|---|---|
| Cash flow ratio | 25.39 | 26.36 | -0.97 |
| Cash flow adequacy ratio | 43.24 | 37.44 | 5.80 |
| Cash flow reinvestment ratio | 8.62 | 11.11 | -2.49 |

Analysis and description of the changes of the increase/decrease ratio: (the change from one period to the next reaches above 20%)

Notes to analysis: None.

(III) Cash flow analysis for the coming year

Unit: NTD thousands

| Balance of cash, beginning① | Estimated net cash flow from year-round operating activities ② | Estimated net cash inflow (outflow) from year-round investment and financing activities ③ | Estimated cash surplus (deficit) ①+②-③ | Remedy for estimated cash shortage | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financial plan |
| 1,103,311 | 332,713 | (269,386) | 1,166,638 | None | None |

1. Analysis of changes in cash flows in current period:
   (1) Operating activities: Expected that the operating revenue continues to grow stably, and there will be net cash inflow from operating activities.
   (2) Investment and financing activities: The plant construction project is still underway. There will be net cash outflow from investment activities, while there will be net cash inflow from financing activities, since the fund needed by the plant construction project is disbursed from the long-term bank loans. In conclusion, the net cash outflow from investment activities is still more than the

net cash inflow from financing activities. Therefore, it is expected that there will be net cash outflow from investment and financing activities.

2. Remedy for projected cash shortage and cash flow analysis: None.

## IV. Major capital expenditure and its impact on the financial operations of the Company in the most recent year: None.

## V. Reinvestment policy in the most recent year, the main reasons for profit or loss and the corrective action plan and investment plan for the coming year: The Company upheld the philosophy of conservation and stability for the reinvestment policy in the most recent year to be free from great expansion.

## VI. Risk issues in the recent years and as of the publication date of this annual report:

(I) Impact of interest and exchange rate fluctuations and inflation on the profit and loss of the Company, and the future countermeasures:

| Item | 2019 (NT$ thousand) | Proportion to net operating revenue % | Proportion to income after tax % |
|---|---|---|---|
| Interest expenses | 25,174 | 0.46 | 5.88 |
| Net exchange loss | 15,951 | 0.29 | 3.72 |

(1) Impact of interest rate fluctuation on the profit and loss of the Company, and the future countermeasures:

The interest expenses of the Company was NT$25,174 thousand in 2019, i.e. 0.46% of the annual net operating revenue and 5.88% of the profit and loss after tax. The Company will keep good relationships with banks to obtain a relatively better interest rate and will pay attention to the changes in the interest rate of the financial market to timely adjust the position of funds. Therefore, we estimate that the future interest rate fluctuation has no significant impact on the overall operation of the Company.

(2) Impact of exchange rate fluctuation on the profit and loss of the Company, and the future countermeasures:

The net exchange gain of the Company was NT$15,951 thousand in 2019, i.e.

0.29% of the annual net operating revenue and 3.72% of the profit and loss after tax. The Company has a foreign exchange exposure and a great amount of foreign currency receivables due to the exported products. However, we have the demand for foreign exchange because the daily operation and expenses requires NTD for support. Therefore, the exchange rate fluctuation has significant impact on the profit and loss of the Company. We adopt the following countermeasures to avoid exchange risks.

(a) We keep close contact with the foreign exchange departments of the correspondent financial organizations to continuously collect the information that may have impact on the foreign exchange market to control the trend of the exchange rate and respond to the effect brought by the fluctuation of exchange rate.

(b) Besides adopting natural hedging, the Company also conducts purchase using the sale revenue of the same currency to avoid the foreign exchange risks. The finance and accounting unit will pay close attention to the fluctuation of the foreign exchange market and adjust the foreign currency position depending on the global macroeconomy, price level of the exchange rate and future demand of funds to avoid the possible impact of the exchange rate fluctuation on the Company's operation.

(c) The Company has established the "Operating Procedures for Engaging in Derivatives Trading" and the "Procedure for Acquisition or Disposal of Assets." The relevant foreign exchange transactions shall be conducted in accordance with these two procedures.

(3) Impact of inflation on the profit and loss of the Company, and the future countermeasures:

The Company maintains good relations with our suppliers and the prices of the required raw materials remains stable without any sign of inflation. We will strive to reduce each cost in the future and focus on the changes in the prices of the raw materials to adopt countermeasures timely. We never have any adverse effect on the operation due to inflation to the date on which the annual report was printed, so the inflation has no significant impact on the Company.

(II) Policy on high-risk, high-leverage investments, loaning of funds, endorsements and guarantees as well as transactions of financial derivatives, major causes for profits or losses and future countermeasures:

The Company has never engaged in the high-risk, high-leverage investments, loaning of funds to others, endorsements and guarantees as well as transactions of financial derivatives. All transactions are conducted in accordance with the relevant requirements and countermeasures defined under the Company's "Operating Procedures for Derivatives Trading," "Operating Procedures for Loaning of Funds to Others," "Operating Procedures for Making of Endorsement/Guarantee"; and "Operating Procedures for Acquisition or Disposal of Assets." Meanwhile, the Company also makes announcement and reports according to the related laws and regulations.

(III) Future R&D plans and expected R&D expenditure:

The R&D plans of the Company are all drafted to meet the customers' needs. In the most recent year, the Company's R&D plans have successfully developed multiple products and technologies. In the future, we will invest in the R&D and innovation and the estimate amount of investment will be NT$400 million to NT$500 million each year, occupying at least 10% of the operating revenue to respond to the rapid change in the market demand. The key factors to success of the Company's R&D reside in the recruitment, retention and training of talents to correspond to the challenges of new technology and ensure the leadership of the Company in technology.

Future R&D plans:

| Name of plan | Key factors to success of R&D | Status | Expenditure to be invested in the future | Schedule for mass production |
|---|---|---|---|---|
| Fine-pitch vertical type probe card (45um) | Structural design ability | Design under validation | NT$150 million | 2020 |
| High speed vertical type probe card (56Gbps) | Electricity and structural design ability | Design under validation | NT$150 million | 2020 |
| Micro LED wafer level automated probing device | Micro prober technology<br>High-precision automation technology<br>Microcurrent circuit testing technology | Development under validation | NT$30 million | 2020 |
| VCSEL wafer level burn-in system | Wafer level prober technology<br>VCSEL photoelectric synchronization measurement technology | Development under validation | NT$50 million | 2020 |
| VCSEL flip-chip-level wafer automated probing device | Accumulation of customer experience<br>High-precision equipment development technology | Design under validation | NT$20 million | 2021 |
| Development of high-speed full | High-speed | Still in the | NT$50 | 2021 |

| | | | | |
|---|---|---|---|---|
| automated IC Sorter | pick-and-place technology Accumulation of customer experience | process of design and planning | million | |

(IV) Impact on the Company's finance and business due to changes in domestic or foreign policies and laws, and corresponding countermeasures:

The daily operation of the Company complies with the laws and regulations of the competent authorities. We pay attention to the development trends of important policies at home and abroad and the changes in laws and regulations at all times to evaluate their impact on the Company and take appropriate measures in advance to avoid possible adverse effects resulted by the policies and changes in laws and regulations. There is no significant impact of changes in important policies and laws at home and abroad on the financial operations of the Company to the date on which the annual report is printed.

(V) The effect of technological and industrial changes on the Company's finance and business, and corresponding countermeasures:

In response to the changes of technology and industry and to control the changes of market from time to time, the Company accesses the industrial information by exhibitions, network, and related meetings held by industrial, trading and labor unions. We expand the business and precisely control the trend of industrial information in line with our upgrading R&D technology and outstanding competitive strength to immediately understand the market trends and grasp profitable business opportunities.

(VI) Impact of changes in corporate image on the corporate crisis management, and countermeasures: None, as the Company has remarkable corporate image.

(VII) Expected benefits and possible risks of merger and acquisition, and countermeasures: None.

(VIII) Expected benefits, risks and responsive measures associated with plant expansions:

The factories which the Company are building currently can solve the problem of insufficient space in the present factory premises and preserve a flexible space required for future operation expansion. It not only enables the Company to integrate the departments located outside at rented factory premises and effectively plan the manpower and the equipment layout space, but also enables us to have comprehensive plan on the warehousing and delivery process to effectively improve the performance of the factory management and the efficiency on communication.

(IX) Risk from centralized purchasing or selling, and countermeasures: None.

(X) Impact and risk associated with large share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares, and countermeasures: None.

(XI) Impact and risk associated with changes in management rights, and countermeasures: None.

(XII) For litigious and non-litigious matters, please list major litigious, non-litigious or administrative disputes that have been resolved or are still proceeding involving the Company and/or any director, supervisor, president, any person with actual responsibility for the Company and any major shareholder holding a more than 10% of the shares, and the affiliated companies. Moreover, where such a dispute could materially affect shareholders' equity or the prices of the securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of publication of the annual report:

The Company was aware of the important message released by WinWay Tech. Co., Ltd. on March 31, 2020. The Company hereby declares that some former employee of the Company downloaded confidential information of the Company when they were working for the Company and was found upon the audit. For this, the Company has appointed its attorney-at-law to file a complaint with the investigating and prosecuting apparatus voluntarily. In the meantime, some of the defendants' PCs or USBs as seized in the criminal raid action conducted previously were found containing the Company's business secrets. Accordingly, the Company also filed a civil action against the former employee, and WinWay Tech. Co., Ltd. and its responsible person, claiming that the defendants should be liable for the damages jointly and severally, in order to maintain the interest and right of the Company and shareholders, and also defend the Company's IPRs actively, and fair and justified market competition and industrial order.

(XIII) Other material risks and responsive measures:

Information security risk and management measures

(1) Corporate information security policy

- Protect the Company's trade secret/business secrets, and confidentiality of customers' information.
- Protect the information application of the core operations, and availability and completeness of supporting services and equipment thereof.
- Ensure the declaration of valid and continuing security policy for the information security management mechanism.
- In order to ensure the business sustainability and keep the promise to customers, the Company establishes the corporate information security policy, operating procedures and regulations, in order to solidify the information risk management, enhance the information security control mechanism, practice the information security protection, upgrade the information security level, and provide the

related staff from the Company's divisions/offices, and important partners, with some guidelines to follow.

(2) Information security organization and authority

- The Company has established the information security organization responsible for dealing with issues related to information security prevention and crisis management, in order to prevent business secrets from being disclosed and any information security risk, maintain the information system security, and respond to any urgent incidents rapidly, and restore normal operations immediately as possible as it can. Such organization has mitigated the damage potentially caused by any incidents.
- The information security organization consists of the Company's president, information security committee, representatives, information security incident response team, and information security promotion team, which may consult with experts and scholars, private professional organizations and group outside the Company to enhance mutual cooperation and share experience between both parties. Then, the information security threats to be encountered by the Company may be evaluated, in order to help research, prepare and promote the information security practices.

The Company established a set of information security management systems which satisfied ISO 27001, equipped with formal information security risk assessment and management procedures. Upon establishment of said policies, procedures and other multiple information security protection measures, the Company keeps reviewing and evaluating its network security regulations and procedures to ensure the validity and effectiveness thereof.

(XIV) Key Performance Indicator (KPI):

The KPI of the probe card operating center of the Company characteristics refer to the R&D of advanced probe card technology and the percentage of the probe card operating revenue thereof. The higher the percentage is, the better it is. The following is the list of the percentage of advanced probe card in the probe card operating revenue of the Company for the most recent two (2) years:

| Item of production and technology | 2018 | 2019 |
|---|---|---|
| Epoxy/Cantilever Probe Cards | 47% | 48% |
| Advanced Probe Cards | 53% | 52% |

## VII. Other important disclosures: None.

# Eight. Special notes

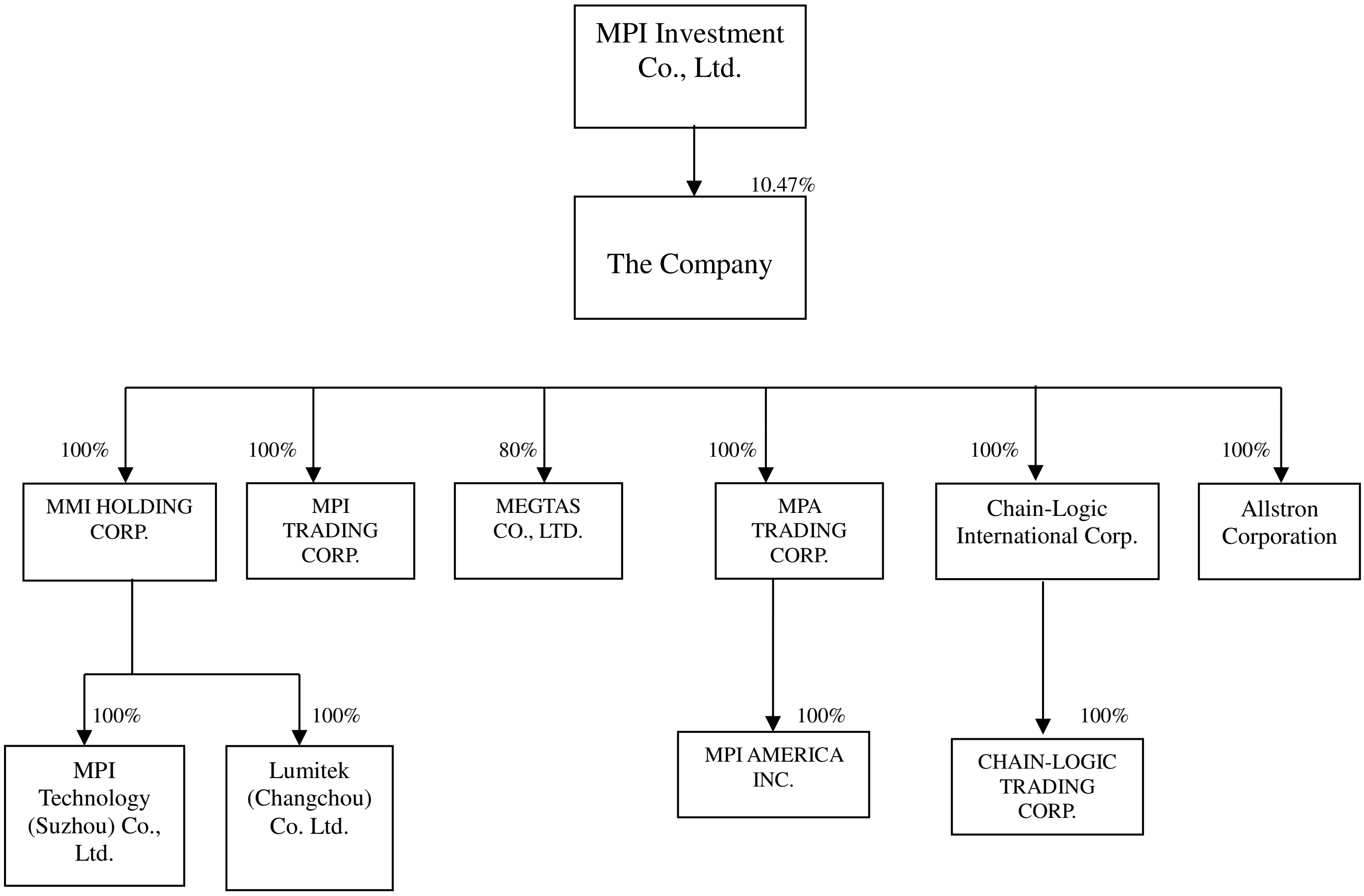
## I. Information on affiliate enterprises:

### (I) Overview of affiliates

(1) Overview of of affiliates' organization

(a) Organizational chart of the affiliates

December 31, 2019




(b) The affiliates that meet Article 369-2 of the Company Act were included into the consolidated financial statements of the affiliated companies.

(c) Entities presumed in parent-subsidiary relations according to Article 369-3 of the Company Act: None.

(2) Basic information on affiliates

December 31, 2019; Currency unit: NTD thousand

| Enterprise Name | Date of incorporation | Address | Paid-in capital | Principal business or production lines |
|---|---|---|---|---|
| MPI Investment Co., Ltd. | December 29, 2000 | 3F, No. 8, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City | 1,107 | General investment |
| Chain-Logic International Corp. | March 1, 1994 | 2F, No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County | 50,000 | Semi-conductor equipment agent |
| MPI TRADING CORP. | December 22, 2000 | Offshore Chambers, P.O.BOX 217, APIA, SAMOA | 1,000 USD | Engage in Probe Card business |
| MMI HOLDING CO., LTD. | August 7, 2001 | Offshore Chambers, P.O.BOX 217, APIA, SAMOA | 18,267,987 USD | Holding company |
| MEGTAS CO., LTD. | September 1, 2010 | 134 Gunseo-ri, Jikson-eub, Seobuk-gu,Cheonan,Chungnam, 331-811, Korea | 2,500,000,000 won | Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts |
| Allstron Corporation | March 31, 2006 | No. 8, Lane 98, Jiaren Street, Neighborhood 36, Xinan Vil., Zhubei City, Hsinchu County | 15,500 | Information software wholesale, and wholesale and retail of electronic materials, telecommunication devices and precision instruments |
| MPA TRADING CORP. | April 12, 2017 | Vistra (Anguilla) Limited of Vistra Corporate Services Centre, Albert Lake Drive,The Valley, Anguilla, British West Indies. | 1,250,000 USD | Holding company |
| Lumitek (Changchou) Co. Ltd. | January 10, 2014 | No. 377, Wu Yi S. Road, China Wujin High-tech Industrial Development Zone | 16,000,000 USD | R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; domestic procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts. |
| MPI Corporation | July 11, 2017 | No. 13, Chun Hui Road, Suzhou Industrial Park | 2,000,000 USD | R&D and production of LED semi-conductor |

| | | | | |
|---|---|---|---|---|
| (Suzhou) | | | | LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts. |
| MPI AMERICA INC. | March 29, 2017 | 2360 QUME DRIVE,SUITE C, SAN JOSE, CA | 1,200,000 USD | Trading of probe cards and semi-automatic probers |
| CHAIN-LOGIC TRADING CORP. | November 19, 2001 | Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365, 307 St James Court, St Denis Street, Port Louis, Republic of Mauritius. | 300,100 USD | International trading |

(3) Entities presumed in parent-subsidiary relations and information on identical shareholders: None.

(4) The industries housed in the same business location of the whole business group:

The business lines run by the Company and its affiliates include investment business; production, testing, R&D, manufacturing and trading of semi-conductor equipment and spare parts; agency of semi-conductor equipment; trading; supply service of electronic information; wholesale and retail of electronic appliances and materials and manufacturing of electronic spare parts.

(5) Information on directors, supervisors and presidents of the Company's affiliates:

December 31, 2019

| Name of enterprise | Job title (Note 1) | Name or representative | Shares held (Note 2) (Note 3) | |
|---|---|---|---|---|
| | | | Number of shares (Capital contribution) | Ratio of shareholding (Ratio of capital contribution) |
| MPI Investment Co., Ltd. | Chairman<br>Director<br>Director<br>Supervisor | Ko, Chang-Lin<br>Li, Tu-Cheng<br>Steve Chen<br>Scott Kuo | 45,133 shares<br>30,089 shares<br>10,029 shares<br>2,966 shares | 40.76%<br>27.17%<br>9.06%<br>2.68% |
| Chain-Logic International Corp. | Name of investor<br><br>Chairman<br>Director<br>Director<br>Supervisor<br>President | MPI Corporation<br>Representative:<br>Ko, Chang-Lin<br>Steve Chen<br>Scott Kuo<br>Rose Jao<br>Chan, Chao-Nan | 5,000,000 shares | 100.00% |

| | | | | |
|---|---|---|---|---|
| MPI TRADING CORP. | Name of investor<br>Responsible person | MPI Corporation<br>Ko, Chang-Lin | 1,000 shares | 100.00% |
| MMI HOLDING CO., LTD. | Name of investor<br>Responsible person | MPI Corporation<br>Ko, Chang-Lin | 18,267,987 shares | 100.00% |
| MEGTAS CO.,LTD. | Name of investor<br>Name of investor<br><br><br>Chairman<br>Director<br>Director<br>Director<br>Supervisor | MPI Corporation<br>LUCID DISPLAY TECHNOLOGY CO.,LTD<br>Representative:<br>HUAN-SHENG LIN<br>HUAN-SHENG LIN<br>DU-HWA HWANG<br>JUNG-JAE CHEUN<br>SHENG-YI CHEN | 400,000 shares<br>100,000 shares | 80.00%<br>20.00% |
| Allstron Corporation | Name of investor<br><br>Chairman<br>Director<br>Director<br>Supervisor | MPI Corporation<br>Representative:<br>Scott Kuo<br>Steve Chen<br>Liu, Yung-Chin<br>Rose Jao | 15,500,000 shares | 100.00% |
| MPA TRADING CORP. | Name of investor<br>Responsible person | MPI Corporation<br>Ko, Chang-Lin | 1,250,000 shares | 100.00% |
| Lumitek (Changchou) Co. Ltd. | Name of investor<br>Responsible person | MMI HOLDING CO., LTD.<br>Scott Kuo | US$16,000,000 | 100.00% |
| MPI Corporation (Suzhou) | Name of investor<br>Responsible person | MMI HOLDING CO., LTD.<br>Chan, Yun-Fu | US$2,000,000 | 100.00% |
| MPI AMERICA INC. | Name of investor<br>Responsible person | MPA TRADING CORP.<br>Richard Dock | 1,200,000 shares | 100.00% |
| CHAIN-LOGIC TRADING CORP. | Name of investor<br>Responsible person | Chain-Logic International Corp.<br>Ko, Chang-Lin | 300,100 shares | 100.00% |

Note 1. If the affiliate is a foreign company, please list the one of equivalent job rank.

Note 2. If the investee is a limited company by share, please identify the quantity of shares and shareholding; otherwise, please specify the capital contribution and percentage thereof, and note the same.

Note 3. If the director or supervisor is a corporation, please disclose the information about its representative.

Note 4. If said affiliate does not appoint a president, the president shall be assumed by the Chairman (or responsible person or director) of the affiliate concurrently.

## (II) Overview of Affiliated Companies' Operations

Financial position and operating result of affiliates:

December 31, 2019; Currency unit: NTD thousand

| Name of enterprise | Capital | Total assets | Total liabilities | Net value | Operating revenue | Operating profit (loss) | Income (after tax) | EPS (NT$) (after tax) |
|---|---|---|---|---|---|---|---|---|
| Chain-Logic International Corp. | 50,000 | 490,460 | 227,208 | 213,252 | 378,308 | 35,280 | 30,506 | 6.10 |
| MPI TRADING CORP. | 32 | 60,858 | — | 60,858 | — | (1,530) | (420) | (420) |
| MMI HOLDING CO., LTD. | 573,502 | 533,387 | — | 533,387 | 43 | (27,302) | (27,590) | (1.51) |
| MEGTAS CO., LTD. | 66,509 | 50,437 | 4,733 | 45,704 | 53,989 | (3,001) | (1,930) | (3.86) |
| Allstron Corporation | 15,500 | 1,598 | 20 | 1,578 | — | (77) | (66) | (0.04) |
| MPA TRADING CORP. | 37,881 | 1,381 | 115,520 | (114,139) | 4 | (60,368) | (60,401) | (48.32) |
| Lumitek (Changchou) Co. Ltd. | 502,470 | 564,547 | 76,115 | 488,432 | 244,221 | (10,919) | (3,635) | — |
| MPI Corporation (Suzhou) | 60,180 | 333,127 | 300,514 | 32,613 | 260,321 | (21,882) | (23,681) | — |
| MPI AMERICA INC. | 36,366 | 178,247 | 293,767 | (115,520) | 510,369 | (59,635) | (60,344) | (50.29) |
| CHAIN-LOGIC TRADING CORP. | 12,687 | 17,041 | — | 17,041 | — | (1,008) | 100 | 0.12 |

Note 1. All of the affiliates should be disclosed, irrelevant to scale and size.

Note 2. If the affiliate refers to a foreign company, the relevant figures shall be stated in NTD at the foreign exchange rate prevailing on the date of the report.

Note 3. The financial statements of said affiliates were audited and certified by the external auditor of the parent company.

Note 4. If the investee is a limited company, its EPS shall not apply.

Note 5. Foreign exchange rate prevailing on the date of the report:

RMB: USD=1: 6.751; weighted average exchange rate = 1: 6.810
RMB:NTD=1: 4.442; weighted average exchange rate = 1: 4.456
NTD:USD = 1:29.990; weighted average exchange rate = 1:30.348
NTD:Won = 1:0.0261; weighted average exchange rate = 1:0.0269

## II. Private placement of securities in the last year up till the date of publication of the annual report: None.

**III. Holding or disposal of the company's shares by subsidiaries in the last year, up till the publication date of this annual repor**t: None.

**IV. Other supplementary information**: None.

**V. Any significant events materially affecting shareholders' equity or the price of securities as defined in Paragraph 2(2) of Article 36 of the Securities and Exchange Act in the most recent year and up to the publication date of the annual report:** None.

# MPI Corporation
# Supervisors' Review Report

The Company's 2019 standalone financial statement and consolidated financial statements submitted by the Board of Directors have been audited by Chen, Chih-Ling and Chen, Yi-Ling, CPAs of Nexia Sun Rise CPAs & Co, who believe that the statements should be sufficient to present a fair view of the financial status, operating result and cash flow of the Company. We also reviewed the business report and motion for earnings allocation submitted together with the financial statements. We hereby recognize said report and statements after conducting the audit on them pursuant to Article 219 of the Company Act and Article 36 of Securities and Exchange Act.

To:

2019 Annual General Meeting of MPI Corporation

MPI Corporation

Supervisor: Li, Tu-Cheng

Liu, Fang-Sheng

Tsai, Chang-Shou

March 26, 2020

# Independent Auditor's Audit Report

The Board of Directors and Shareholders

MPI Corporation

## Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

## Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

Key audit matters on the financial statements for the year ended December 31, 2019 were as follows:

## 1. Revenue Recognition

Matter Description

Regarding the accounting policy of revenue recognition, please refer to (26) of Note 4 of the Individual Financial Statements. Regarding relevant disclosure, please refer to (17) of Note 6 and Note 9 of Statements of Major Accounting Items - Statement of Operating Revenue.

Sales revenue is the major index for investors and the management to evaluate the finance or performance of MPI Corporation. As the point in time for revenue recognition and the amount of recognized revenue can make a big difference on the financial statements, the CPA(s) has also reviewed the accuracy of these two key factors during the audit.

Audit Procedures in Response

The CPA(s) has implemented audit procedures in response as summarized below:

(1) Understood and tested the design and implementation efficiency of sales and receiving circulation control system.

(2) Understood the major revenue type and trading terms of MPI Corporation to assess if the accounting policy of point in time for revenue recognition is appropriate.

(3) Understood the product type and sales of the top 10 customers; sampled and reviewed the orders; assessed the influence of trading terms to revenue recognition; and confirmed if MPI Corporation has handled accounting relevant activities appropriately.

(4) Evaluated if the number of days for turning over the sales revenue and payables; and analyzed changes to customers of this and last year at the same time point to see if there is any abnormality.

(5) Implemented the detail test, where transactions of sales revenue before and after the financial statements within a specified period have been sampled to carry out the cut-off test and verify relevant certificates. Changes to the inventory in account books and transferred sales costs have been recorded during an appropriate period of period to evaluate the correctness of the period of recognizing the revenue, ensure if there is any abnormal revenue journal voucher, and understand if there is any grave refund or return after the period.

## 2. Inventory Valuation

Matter Description

Regarding the accounting policy of inventory valuation, please refer to (14) of Note 4 of Individual Financial Statements. Regarding significant accounting judgments, estimations, and assumptions of inventory valuation, please refer to Note 5 of Individual Financial Statements. Regarding descriptions of inventory accounting items, please refer to (4) of Note 6 of Individual Financial Statements. The Company recognize inventories amounting to NT$2,437,109 thousand and Allowance for inventories amounting to NT$306,914 thousand. The book value of the Company's inventories as December 31, 2019 was NT$2,130,195 thousand and accounted 27% of the total assets in the consolidated balance sheet.

MPI Corporation mainly engages in the manufacturing and sales of semiconductor production and testing equipment. Due to rapid technological changes, short life cycle and intense market competition of electronic products, there is a high tendency for inventory valuation loss and losses caused by outdated inventory. The inventory is evaluated by either the cost or net realizable value, depending on which one has the lower value. Inventories that exceed specific inventory age or are evaluated as outdated during individual assessment shall have the inventory loss evaluation conducted also based on the inventory age and future product demand during specific period of time. The information comes from the management’s judgement on each product’s net realizable value based on the inventory sales, age and quality conditions. As the amount of MPI Corporation’s inventory is great; a number of items are included on the inventory list; and the valuation of inventories that have exceeded specific age or are outdated relies heavily on the management’s subjective judgement and involves a high degree of uncertainty, the Account(s) believes that the inventory valuation and obsolescence loss is one of the key audit matters of the year.

Audit Procedures in Response

The CPA(s) has implemented the audit procedures in response as summarized below:

(1) With the CPA’s knowledge of the industry and MPI Corporation’s operations, evaluated the soundness of the Corporation’s policies concerning the allowance for inventory valuation loss and doubtful debts.

(2) Understood MPI Corporation’s inventory management procedures, reviewed it’s annul inventory plan, and participated in its annual inventory check to evaluate the management’s judgement and control efficiency of outdated inventories.

(3) Acquired the list of product inventory age, verified the appropriateness of reporting system logic, and confirmed the consistency of report information and adopted policies.

(4) Evaluated the appropriateness of the methods of calculating inventory valuation impairment, including deciding the inventory classification based on the net realizable value, checking individual material number to verify the basic assumption of the calculation in relevant supporting document, and verify the accuracy of calculation.

## Other Matter-Making Reference to the Audits of Component Auditors

As stated in the individual financial statements (5) of Note 6，Certain investments, which were accounted for under the equity method based on the financial statements of the investees, were audited by other independent accountants. Respectively, the related shares of investment income from the subsidiaries amounted to NT$(61,888) thousand and NT$(44,820) thousand. Insofar as it related to the investments accounted for under the equity method balances of NT$ (79,016) thousand and NT$ (16,961) thousand as of December 31, 2019, December 31, 2018.

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

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

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

NEXIA Sun Rise CPAs & Company
Taipei, Taiwan, Republic of China
March 26, 2020

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

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

**MPI CORPORATION**

BALANCE SHEETS (ASSETS)

DECEMBER 31 ,2019 AND 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| | | December 31,2019 | | December 31,2018 | |
|---|---|---|---|---|---|
| ASSETS | Note | Amounts | % | Amounts | % |
| NONCURRENT ASSETS | | | | | |
| Cash and cash equivalents | 6(1) | $ 397,726 | 5 | $ 722,973 | 9 |
| Accounts receivable, net | 6(3) | 930,119 | 12 | 679,191 | 8 |
| Accounts receivable -related parties, net | 6(3).7 | 459,453 | 6 | 311,470 | 4 |
| Other receivables | | 1,253 | - | 4,625 | - |
| Other receivables -related parties | 7 | 57,246 | 1 | 28,303 | - |
| Income tax receivable | | - | - | 676 | - |
| Inventories, net | 6(4) | 2,130,195 | 27 | 2,467,379 | 30 |
| Prepayments | | 47,404 | 1 | 49,687 | 1 |
| Other current assets | 8 | 4,898 | - | 3,402 | - |
| Total Current Assets | | 4,028,294 | 52 | 4,267,706 | 52 |
| NONCURRENT ASSETS | | | | | |
| Investments accounted for using equity method | 6(5) | 802,648 | 10 | 858,533 | 11 |
| Property, plant and equipment | 6(5).7.8 | 2,768,524 | 35 | 2,784,489 | 34 |
| Right-of-use assets | 6(7) | 90,934 | 1 | - | - |
| Intangible assets | 6(8) | 34,449 | - | 41,237 | 1 |
| Deferred income tax assets | 6(19) | 104,640 | 1 | 81,149 | 1 |
| Other noncurrent assets | 6(9) | 100,189 | 1 | 101,241 | 1 |
| Total Noncurrent Assets | | 3,901,384 | 48 | 3,866,649 | 48 |
| TOTAL ASSETS | | $ 7,929,678 | 100 | $ 8,134,355 | 100 |

(The accompanying notes are an integral part of the parent company only financial statements)

**MPI CORPORATION**

BALANCE SHEETS (LIABILITIES AND EQUITY)

DECEMBER 31 ,2019 AND 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| | | December 31,2019 | | December 31,2018 | |
|---|---|---|---|---|---|
| LIABILITIES AND EQUITY | Note | Amounts | % | Amounts | % |
| CURRENT LIABILITIES | | | | | |
| Short-term loans | 6(10) | $ 500,000 | 6 | $ 818,000 | 10 |
| Contract liabilities－current | 6(17).7 | 628,423 | 8 | 854,750 | 11 |
| Accounts payable | | 344,165 | 4 | 457,107 | 6 |
| Accounts payable-related parties | 7 | 3,843 | - | 2,972 | - |
| Payables on equipment | | 65,720 | 1 | 19,530 | - |
| Other payables | 6(11) | 637,442 | 8 | 625,550 | 8 |
| Other payables-related parties | 7 | 22,465 | - | 102,190 | 1 |
| Income tax payable | | 46,300 | 1 | 40,709 | 1 |
| Lease liabilities－current | 6(7) | 45,256 | 1 | - | - |
| Provisions | 6(12) | 6,572 | - | 4,859 | - |
| Current portion of long-term liabilities | 6(14) | - | - | 29,233 | - |
| Other current liabilities | | 13,476 | - | 10,639 | - |
| Total Current Liabilities | | 2,313,662 | 29 | 2,965,539 | 37 |
| NONCURRENT LIABILITIES | | | | | |
| Non-current Financial liabilities at Fair Value | 6(13) | 384 | - | 9,266 | - |
| Bonds payable | 6(13) | 902,485 | 11 | 892,843 | 11 |
| Long-term loans | 6(14) | 142,208 | 2 | 39,230 | - |
| Deferred income tax liabilities | 6(19) | 5,454 | - | 13,040 | - |
| Lease liabilities－noncurrent | 6(7) | 46,372 | 1 | - | - |
| Accrued pension cost | 6(15) | 29,324 | - | 39,102 | 1 |
| Credit balance of investments account for usin | 6(5) | 118,988 | 2 | 68,397 | 1 |
| Other noncurrent liabilities | | 97 | - | 97 | - |
| Total Other Liabilities | | 1,245,312 | 16 | 1,061,975 | 13 |
| TOTAL LIABILITIES | | 3,558,974 | 45 | 4,027,514 | 50 |
| EQUITY | 6(16) | | | | |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | |
| Capital common stock | | 799,587 | 10 | 799,014 | 10 |
| Capital surplus | | 980,325 | 12 | 977,255 | 12 |
| Retained earnings | | | | | |
| Appropriated as legal capital reserve | | 596,549 | 8 | 563,093 | 7 |
| Special reserve | | 54,229 | 1 | 42,308 | - |
| Unappropriated earnings | | 2,008,491 | 25 | 1,779,401 | 22 |
| Total Retained Earnings | | 2,659,269 | 34 | 2,384,802 | 29 |
| Other | | | | | |
| Foreign currency translation adjustments | | (68,477) | (1) | (54,230) | (1) |
| Total others | | (68,477) | (1) | (54,230) | (1) |
| TOTAL EQUITY | | 4,370,704 | 55 | 4,106,841 | 50 |
| TOTAL LIABILITIES AND EQUITY | | $ 7,929,678 | 100 | $ 8,134,355 | 100 |

(The accompanying notes are an integral part of the parent company only financial statements)

**MPI CORPORATION**

STATEMENTS OF COMPREHENSIVE INCOME

From January 1 to December 31, 2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Note | January 1 ~ December 31,2019 Amounts | % | January 1 ~ December 31,2018 Amounts | % |
|---|---|---|---|---|---|
| OPERATING REVENUE, NET | 6(17).7 | | | | |
| Sales revenue | | $ 4,893,661 | 100 | $ 4,670,536 | 99 |
| Less: sales returns | | (12,164) | - | (10,685) | - |
| sales discounts and allowances | | (579) | - | (1,221) | - |
| Commission revenue | | - | - | 45,590 | 1 |
| Operating Revenue, net | | 4,880,918 | 100 | 4,704,220 | 100 |
| OPERATING COSTS | 6(5).7 | (2,927,920) | (60) | (2,838,717) | (60) |
| GROSS PROFIT | | 1,952,998 | 40 | 1,865,503 | 40 |
| Unrealized Gross profit on sales to subsidiaries and associates | | (41,768) | (1) | (24,434) | (1) |
| Realized Gross profit on sales to subsidiaries and associates | | 60,705 | 1 | 46,528 | 1 |
| GROSS PROFIT, NET | | 1,971,935 | 40 | 1,887,597 | 40 |
| OPERATING EXPENSES | 7 | | | | |
| Selling expenses | | (503,410) | (10) | (460,427) | (10) |
| General & administrative expenses | | (271,749) | (6) | (236,807) | (5) |
| Research and development expenses | 6(8) | (700,653) | (14) | (869,002) | (18) |
| Expected Credit (loss) gains | | (8,696) | - | (2,736) | - |
| Operating expense, net | | (1,484,508) | (30) | (1,568,972) | (33) |
| OPERATING INCOME | | 487,427 | 10 | 318,625 | 7 |
| NON-OPERATING INCOME AND EXPENSES | | | | | |
| Other gains and losses | 6(18) | (13,961) | - | 27,351 | 1 |
| Finance costs | 6(18) | (23,181) | - | (22,860) | (1) |
| Share of profits of subsidiaries and associates | 6(5) | (57,995) | (1) | 2,420 | - |
| Interest income | | 1,500 | - | 1,006 | - |
| Rent income | | 14,434 | - | 6,635 | - |
| Other non-operating revenue-other items | | 74,798 | 1 | 47,592 | 1 |
| Total Non-operating Income | | (4,405) | - | 62,144 | 1 |
| INCOME BEFORE INCOME TAX | | 483,022 | 10 | 380,769 | 8 |
| INCOME TAX BENEFIT(EXPENSE) | 6(19) | (54,652) | (1) | (46,207) | (1) |
| NET INCOME | | 428,370 | 9 | 334,562 | 7 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | | |
| Items that are not to be reclassified to profit or loss | | | | | |
| Re-measurements from defined benefit plans | | 6,018 | - | (7,349) | - |
| Share of remeasurements of defined benefit plans of subsidiaries and associates | | (118) | - | 47 | - |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences arising on translation of foreign operations | | (14,247) | - | (11,921) | - |
| Other comprehensive income for the year, net of income tax | | (8,347) | - | (19,223) | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | $ 420,023 | 9 | $ 315,339 | 7 |
| NET INCOME(LOSS) ATTRIBUTABLE TO： | 6(20) | After-tax | | After-tax | |
| Shareholers of the parent | | $ 5.36 | | $ 4.19 | |
| Noncontrolling interests | | $ 4.54 | | $ 3.56 | |

(The accompanying notes are an integral part of the parent company only financial statements)

# MPI CORPORATION

STATEMENTS OF CHANGES IN EQUITY

From January 1 to December 31 ,2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Capital- Common Stock | Capital Surplus | Retained Earnings: Legal Capital Reserve | Retained Earnings: Special Capital Reserve | Retained Earnings: Unappropriated Earnings | Others: Foreign Currency Translation Reserve | Total Equity |
|---|---|---|---|---|---|---|---|
| BALANCE,JANUARY,1,2018 | $ 799,014 | $ 909,204 | $ 548,516 | $ 30,177 | $ 1,523,376 | $ (42,309) | $ 3,767,978 |
| Legal capital reserve | | | 14,577 | | (14,577) | | – |
| Special capital reserve | | | | 12,131 | (12,131) | | – |
| Cash Dividends of Common Stock | | | | | (39,951) | | (39,951) |
| Capital Reserve From Stock Warrants | | 67,683 | | | | | 67,683 |
| Other changes in capital surplus | | 368 | | | | | 368 |
| Net Income in 2018 | | | | | 334,562 | | 334,562 |
| Other comprehensive income in 2018, net of income tax | | | | | (7,302) | (11,921) | (19,223) |
| Total comprehensive income in 2018 | – | – | – | – | 327,260 | (11,921) | 315,339 |
| Difference between consideration paid and carrying amount of subsidiaries acquired | | | | | (4,576) | | (4,576) |
| BALANCE,DECEMBER,31,2018 | $ 799,014 | $ 977,255 | $ 563,093 | $ 42,308 | $ 1,779,401 | $ (54,230) | $ 4,106,841 |
| | | | | | | | |
| BALANCE,JANUARY,1,2019 | $ 799,014 | $ 977,255 | $ 563,093 | $ 42,308 | $ 1,779,401 | $ (54,230) | $ 4,106,841 |
| Legal capital reserve | | | 33,456 | | (33,456) | | – |
| Special reserve | | | | 11,921 | (11,921) | | – |
| Cash Dividends of Common Stock | | | | | (159,803) | | (159,803) |
| Capital Reserve From Stock Warrants | | 3,465 | | | | | 3,465 |
| Other changes in capital surplus | | (395) | | | | | (395) |
| Net Income in 2019 | | | | | 428,370 | | 428,370 |
| Other comprehensive income in 2019, net of income tax | | | | | 5,900 | (14,247) | (8,347) |
| Total comprehensive income in 2019 | – | – | – | – | 434,270 | (14,247) | 420,023 |
| Convertible Bonds Transferred To Common Stock | 573 | – | | | | | 573 |
| BALANCE,DECEMBER,31,2019 | $ 799,587 | $ 980,325 | $ 596,549 | $ 54,229 | $ 2,008,491 | $ (68,477) | $ 4,370,704 |

(The accompanying notes are an integral part of the parent company only financial statements)

**MPI CORPORATION**

STATEMENTS OF CASH FLOWS

From January 1 to December 31, 2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Jan 1 ~ Dec 31,2019 | Jan 1 ~ Dec 31,2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 483,022 | $ 380,769 |
| Adjustments to reconcile net income to net | | |
| Depreciation | 378,345 | 331,492 |
| Amortization | 49,425 | 49,697 |
| Expected credit loss(gain) | 8,696 | 2,736 |
| Gains on Financial Assets (Liabilities) at Fair Value through Profit or Loss | (8,867) | 3,200 |
| Interest expense | 23,181 | 22,860 |
| Interest revenue | (1,500) | (1,006) |
| Loss (gain) on equity-method investments | 57,995 | (2,420) |
| (Gain) loss on disposal of property, plant and equipment | (4,978) | (5,669) |
| Unrealized gross profit on sales to subsidiaries and associates | 41,768 | 24,434 |
| Realized gross profit on sales to subsidiaries and associates | (60,705) | (46,528) |
| (Gain) on repurchase of convertible bonds | (82) | (1,564) |
| Adjustments-exchange (Gain) loss on prepayments for equipment | 504 | (334) |
| Adjustments-(Gain) loss on lease modification | 1 | - |
| Net changes in operating assets and liabilities | | |
| Net changes in operating assets | | |
| Decrease (Increase) in accounts receivable | (259,625) | (56,402) |
| Decrease (Increase) in accounts receivable-related parties | (147,983) | (46,480) |
| Decrease (Increase) in other receivables | 3,365 | 3,845 |
| Decrease (Increase) in other receivables-related parties | (28,944) | 6,502 |
| Decrease (Increase) in inventories | 337,184 | (239,887) |
| Decrease (Increase) in prepayments | 2,284 | 3,924 |
| Decrease (Increase) in other current assets | (762) | 317 |
| Net changes in operating liabilities | | |
| (Decrease) Increase in contract liabilities | (226,327) | 102,214 |
| (Decrease) Increase in accounts payable | (112,942) | 68,555 |
| (Decrease) Increase in accounts payable-related parties | 871 | (5,684) |
| (Decrease) Increase in other accounts payable | 12,083 | 180,942 |
| (Decrease) Increase in other accounts payable-related parties | (79,726) | (36,131) |
| (Decrease) Increase in provision of liabilities | 1,713 | 1,649 |
| (Decrease) Increase in other current liabilities | 2,836 | 425 |
| Decrease(Increase) in accrued pension cost | (3,760) | 56 |
| Cash generated from operations | 467,072 | 741,512 |
| Interest received | 1,507 | 999 |
| Cash dividends received | 53,054 | 17,605 |
| Interest (excluding capitalization of interest) | (6,414) | (17,290) |
| Cash dividends | (159,803) | (39,951) |
| Income taxes paid | (79,462) | (16,195) |
| Net cash Provided By Operating Activities | 275,954 | 686,680 |

(Continue)

**MPI CORPORATION**

STATEMENTS OF CASH FLOWS

From January 1 to December 31, 2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Jan 1 ~ Dec 31,2019 | Jan 1 ~ Dec 31,2018 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Addition of investments accounted for using equity method | - | (13,861) |
| Disposal of investments accounted for using equity method | - | 4 |
| Proceeds from capital return of investments accounted for using equity methoc | - | 112,675 |
| Additions to property, plant and equipment | (265,009) | (251,814) |
| Proceeds from sale of property, plant and equipment | 11,558 | 10,151 |
| Intangible assets | (25,410) | (25,960) |
| Increase in other financial assets | (734) | (25) |
| Increase in other non-current assets | (16,175) | - |
| Decrease in other non-current assets | - | 27,405 |
| Net cash Provided Used In Investing Activities | (295,770) | (141,425) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in short-term loans | (318,000) | (352,000) |
| Issuance of corporate bonds | - | 995,618 |
| Repurchase of convertible bonds | (1,802) | (33,030) |
| Increase in long-term loans | 73,745 | - |
| Repayments of long-term loans | - | (730,233) |
| Repayments of lease principal | (59,374) | - |
| Net cash (Used In) Financing Activities | (305,431) | (119,645) |
| Net increase in cash and cash equivalents | (325,247) | 425,610 |
| Cash and cash equivalents at beginning of year | 722,973 | 297,363 |
| Cash and cash equivalents at end of year | $ 397,726 | $ 722,973 |

(The accompanying notes are an integral part of the parent company only financial statements)

# MPI CORPORATION

Notes to parent company only financial statements

January 1 to December 31, 2019 and 2018

(Expressed in NT$1,000, Unless Otherwise Noted)

## 1. Company profile

(1) MPI Corporation (hereinafter referred to as the "Company") was founded according to the Company Law and other related laws on July 25, 1995. Upon capital increase for several times, the Company's paid-in capital has been NT$799,587 thousand and outstanding stock has been 79,958,726 shares until December 31, 2019. Upon resolution of the special shareholders' meeting on June 12, 2018, the Company raised the authorized capital as NT$1,200,000,000, divided into 120,000,000 shares at par value of NT$10 per share. The board of directors is authorized to issue the stock in lots. NT$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.

(2) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.

(3) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

## 2. Date and procedure for ratification of financial report

The parent company only financial statement was passed by the Board for release on March 26, 2020.

## 3. Application of new standards, amendments and interpretations

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2019 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9, 'Prepayment features with negative compensation' | January 1, 2019 |
| IFRS 16, 'Leases' | 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 |
| IFRIC 23, 'Uncertainty over income tax treatments' | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

IFRS 16, 'Leases'

A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

B. The Company has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Company increased 'right-of-use asset' by NT$90,988 thousand, increased 'lease liability' by NT$90,988 thousand. The accumulated effect of the initial application did not affect the retained earnings on January 1, 2019.

C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(1) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(2) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

D. The Company calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.42% to 3%.

E. The Company recognized lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The amount of aforementioned present values is the same as the amount of lease liabilities recognized on January 1, 2019.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

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

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’ | January 1, 2020 |
| Amendments to IFRS 3, ‘Definition of a business’ | January 1, 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest Rate Benchmark Reform’ | January 1, 2020 |

The above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included IFRSs as endorsed by the FSC:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’ | To be determined by International Accounting Standards Board |
| IFRS 17, ‘Insurance contracts’ | January 1, 2021 |
| Amendments to IAS 1, ‘Classification of liabilities as current or non-current’ | January 1, 2022 |

The above standards and interpretations are continually evaluated of impact to the Company’s financial condition and financial performance based on the Company’s assessment. The quantitative impact will be disclosed when the assessment is complete.

## 4. Summary of Significant Accounting Policies

The important accounting policies applied by the financial statements are summarized as follows: Unless otherwise provided, the following accounting policies have been applied during the presentation period of the consolidated financial statements.

(1) Statement of compliance

This separate financial statement is prepared in accordance with the “Criteria for the Compilation of Financial Statements by Securities Issuers”.

(2) Basis for preparation

A. Basis for measurement

Except the following important items in the balance sheet, the financial statement was prepared based on the historical cost:

(1) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(2) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(3) Defined benefit liability stated based on the net after pension fund assets less the present value of defined benefit obligations.

B. Functional currency and presentation of currency

The functional currency of each of the Company's entities shall be subject to the currency applicable in the main economic environment in which its business place is situated. The consolidated financial statements should be presented based on the Company's functional currency, NTD. Unless otherwise noted, all of the financial information presented in NTD should be held presented in NTD 1,000 as the currency unit.

(3) Foreign currency

A. Foreign currency transactions

The foreign currency exchange shall be stated at the functional currency translated at the exchange rate prevailing on the date of transaction. The monetary items denominated in the foreign currency on the reporting date shall be stated at the functional currency translated at the exchange rate on the same day. The exchange gain or loss refers to the difference between the amounts upon adjustment of the valid interest, payment on the same period based on the amortized cost denominated in the functional currency, the amount translated from the amortized cost denominated in foreign currency at the exchange rate on the reporting date. The non-monetary items at fair value denominated in foreign currency shall be stated at the functional currency re-translated at the exchange rate prevailing on the same date of fair value measurement, while the non-monetary items at historical cost denominated in foreign currency shall be stated at the functional currency translated at the exchange rate on the date of transaction. Other than the foreign currency exchange difference generated from the translation of the application of IFRS 9 foreign currency items which in the process of applying the financial instrument accounting policies (before January 1, 2018, IAS 39), financial liabilities designated as net investment hedge for foreign operations or qualified cash flow hedging, which shall be stated as other comprehensive income, any difference shall be stated as income.

B. Foreign operations

Assets and liabilities of foreign operations, including the goodwill and fair value adjustment generated at the time of acquisition, shall be translated into functional currency at the exchange rate prevailing on the reporting date. Unless in the case of inflation, the income and expense & loss items shall be translated into functional currency at the average exchange rate in the current period, and the exchange different generated therefore shall be stated as other comprehensive income.

When disposition of foreign operations results in loss of control, common control or any material effect, the accumulated exchange difference related to the foreign operations shall be reclassified into income in whole. If the disposition involves any subsidiary of the foreign operations, the relevant accumulated exchange difference shall be reclassified into the non-controlling interests on a pro rata basis. If the disposition involves any affiliate or joint venture of the foreign operations, the relevant accumulated exchange difference shall be reclassified into income on a pro rata basis.

If no repayment program is defined with respect to receivable or payable items of foreign operations denominated in currency and it is impossible to repay the same in the foreseeable future, the foreign currency exchange gain or loss generated therefore shall be held a part of the net investment in the foreign operations and stated as other comprehensive income.

(4) Current and non-current assets and liabilities

Assets which meet one of the following conditions shall be classified into current assets, and any assets other than the current assets shall be classified into noncurrent assets:

A. Assets expected to be realized, or intent to be sold or consumed, in the Company's normal operating cycle;

B. Assets primarily held for the purpose of trading;

C. Assets expected to be realized within 12 months after the date of the balance sheet;

D. Cash or cash equivalent, exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet.

Liabilities which meet one of the following conditions shall be classified into current liabilities, and any liabilities other than the current liabilities shall be classified into noncurrent liabilities:

A. Liabilities expected to be repaid in the Company's normal operating cycle;

B. Assets primarily held for the purpose of trading;

C. Assets expected to be discharged within 12 months after the date of the balance sheet; and

D. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalent

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

The bank time deposits to initially expire within one year are intended to satisfy the short-term cash commitment instead of investment or others, which may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and, therefore, are stated as cash or cash equivalent.

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Accounts and notes receivable

A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

Including financial assets at amortised cost and accounts receivable or contract assets that have a significant financing component , at each reporting date, the Company recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(10) Financial liabilities at fair value through profit or loss

A. Financial liabilities are classified in this category of held for trading-if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges, or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(a) Hybrid (combined) contracts; or

(b)They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these inancial liabilities at fair value with any gain or loss recognised in profit or loss.

(11) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(12) Convertible bonds payable

Convertible bonds or issued by the Company contain conversion options (that is, the bondholders have the right to convert the bonds into the Company’s common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Company classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

A. The embedded call options and put options are recognised initially at net fair value as ‘financial assets or financial liabilities at fair value through profit or loss’. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as ‘gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss’.

B. The host contracts of bonds or are initially recognized at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortized in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.

C. The embedded conversion options which meet the definition of an equity instrument are initially recognized in 'capital surplus—share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.

D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

E. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'capital surplus—share options'.

(13) Derecognition of financial liabilities

A. A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.

B. Where there has been a renegotiation or modification of the terms of an existing financial liability and resulted in an insignificant discrepancy which is less than ten percent of the estimated cash flows, the carrying amount of the liability is recalculated based on the modified cash flows discounted at the original effective interest rate. The gain or loss arising from the carrying amount after modification less the initial recognition of the financial liability is recognized in profit or loss.

C. Where there has been a substantial renegotiation or modification of the terms of an existing financial liability and resulted in a significant discrepancy which is at least ten percent of the estimated cash flows, the carrying amount of the liability is recalculated based on the modified cash flows discounted at the original effective interest rate. The gain or loss arising from the carrying amount after modification less the initial recognition of the financial liability is recognized in profit or loss.

(14) Inventory

The inventories shall be stated at the lower of cost and net realizable present value. The cost should include the costs of acquisition, production or processing or others incurred when the inventory is sellable or producible and at the location where the inventory is sellable or producible, and calculated under weighted average method. The costs of inventories for finished goods and work in process include the manufacturing expenses amortized based on the normal productivity on a pro rata basis.

Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs under the normal operation.

(15) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and stop arranging the depreciation.

(16) Investment accounted for using equity method - affiliates

An affiliate means an entity in which the Company has major influence over the financial and operating policies but has no control over the same. The Company will be assumed having major influence when it holds 20%~50% of the voting right in the investee.

Under the equity method, the investment is stated at cost at time of acquisition initially. The investment includes trading cost. The book value of investment in affiliates includes the goodwill identified at the time of initial investment less any accumulated impairment loss.

The parent company only consolidated financial statements shall include the income from the invested affiliates recognized subject to the shareholdings and other comprehensive income upon adjustment made in line with the Company’s accounting policy, from the date when the Company has major influence until the date when the Company loses the major influence.

The unrealized gains from transactions between the Company and affiliates have been derecognized from the Company's equity in the investees. The unrealized loss shall be derecognized in the same manner applicable to unrealized gains; provided that the unrealized loss is limited to that arises under no impairment evidence is available.

When the Company’s share of loss from any affiliate to be recognized on a pro rata basis is equivalent to or more than its equity in the affiliate, it shall stop recognizing the loss, but shall recognize the additional loss and relevant liabilities only when legal obligation or constructive obligation is incurred or the Company makes payment on behalf of the investee.

Where the Company forfeits its material influence over an affiliate when the Company disposes of the affiliate, the capital surplus related to the affiliate will be stated as income, provided that where it still has material influence over the affiliate, the capital surplus shall be stated as income based on the proportion of disposition.

(17) Investment in subsidiaries

In compiling the financial statements for the individual entities, the company shall valuate the investee of which the company has dominant control under the equity method. Under the equity method, income of current period and other comprehensive incomes as presented in the financial statement of the individual entity shall be identical with the income of current period and other comprehensive incomes attributable to the proportion allocated to the parent shareholder as presented in the financial statement prepared on the basis of consolidation. The shareholders' equity as presented in the financial statement of the individual entities shall be identical with the parent shareholders' equity as presented in the financial statement prepared on the basis of consolidation.

If the change in all shareholders' equities of the subsidiaries does not cause the loss of dominant control of the company, handled as equity transactions with the shareholders.

The subsidiary's financial statement shall be included into the consolidated financial statements as of the date of acquisition of the control is acquired, until the date of loss of the control.

(18) Property, plant and equipment

A. Recognition and measurement

Property, plant and equipment shall be recognized and measured using a cost model, and measured at the cost less accumulated depreciation and accumulated impairment. The costs include the expenses directly attributable to the acquisition of assets. The costs of self-built assets include the costs of raw materials and direct labor, any other costs directly attributable to usable status of investment assets, costs of dismantling and removal of the items and recovery of premises, and loan cost that meets the requisite asset capitalization. Meanwhile, the costs also include the purchase of property, plant and equipment denominated in foreign currency.

When property, plant and equipment consist of various components, and the total cost for the item is significant and it is advisable to apply different depreciation ratio or methods, the property, plant and equipment should be treated separately (for major components).

The gain or loss on disposal of property, plant and equipment shall be decided based on the price difference between the book value of property, plant and equipment and proceeds on disposal of the same and recognized as the "other gains and losses" in the income statement on a net basis.

B. After cost

If the future economic effect expected to be generated from the after expenses of property, plant and equipment is very likely to flow into the Company and the amount thereof may be measured, the expenses shall be stated as a part of the book value and the relocated book value should be derecognized. The routine maintenance and repairs of property, plant and equipment shall be stated as income when incurred.

C. Depreciation

The depreciation shall be calculated at the cost of assets less residual value using the straight-line method over the estimated useful years, and evaluated based on the various major components of the assets. If the useful years for any component are different from those of other components, the component shall be depreciated separately. The depreciation shall be stated as income.

No depreciation of land is required.

The estimated useful years in the current period and comparative period are stated as follows:

| Item | Useful years |
|---|---|
| House and building | |
| Plant and dormitory | 20-50 |
| Clean room | 20 |
| Electrical and mechanical facilities | 20 |
| Others | 10-20 |
| Machine & equipment | 5-13 |
| Transportation equipment | 4-6 |
| Furniture and fixtures | 3-10 |
| Research equipment | 2-13 |
| Other equipments | 3-9 |

D. Depreciation, useful years and residual value shall be reviewed at the end of each fiscal year. If the expected value is different from the previous estimate, adjustment should be made if necessary, and the changes shall be treated as changes in accounting estimates.

(19) Leasing arrangements (lessor)－lease receivables/ operating leases

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the lessee assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) At commencement of the lease term, the lessor should record a finance lease in the balance sheet as 'lease receivables' at an amount equal to the net investment in the lease (including initial direct costs). The difference between gross lease receivable and the present value of the receivable is recognized as 'unearned finance income of finance lease'.

(b) The lessor should allocate finance income over the lease term based on a systematic and rational basis reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

(c) Lease payments (excluding costs for services) during the lease term are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

B. Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(20) Leasing arrangements (lessee)－right-of-use assets/ lease liabilities

Effective 2019

A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.

(a) Fixed payments, less any lease incentives receivable;

(b) Variable lease payments that depend on an index or a rate;

(c) Amounts expected to be payable by the lessee under residual value guarantees;

(d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Company subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

(a) The amount of the initial measurement of lease liability;

(b) Any lease payments made at or before the commencement date;

(c) Any initial direct costs incurred by the lessee; and

(d)An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset’s useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(21) Lease

Effective 2018

A. None of the Company's lease terms and conditions has transferred the risk and return attached to the title of assets to the lessee. All of the leases are classified as operating leases. The income from lease shall be stated as income based on the straight line method within the related lease period. The lease payment shall be stated as expenses based on the straight line method within the related lease period. The contingent rent under operating lease shall be stated as expenses when it is incurred.

B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Company will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

(22) Intangible assets

A. Goodwill

Where the acquisition cost of identifiable net assets acquired upon merger, if any, is more than the fair value of the assets, the excess shall be stated as goodwill. Goodwill shall be measured at cost less accumulated impairment.

For the investment under equity method, the face value of goodwill is included into that of the investment. Meanwhile, the impairment loss on such investment is not allocated to goodwill or any assets, but a part of the book value of the investment under equity method.

B. Software

Software is amortized over 2~5years on a straight-line basis.

C. Internally generated intangible assets—research and development expenditures

(a) Research expenditures are recognized as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

Ⓐ It is technically feasible to complete the intangible asset so that it will be available for use or sale;

Ⓑ An entity intends to complete the intangible asset and use or sell it;

Ⓒ An entity has the ability to use or sell the intangible asset;

Ⓓ It can be demonstrated how the intangible asset will generate probable future economic benefits;

Ⓔ Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; And

Ⓕ The expenditure attributable to the intangible asset during its development can be reliably measured.

(23) Impairment of non-financial assets

A. The Company will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization without impairment.

B. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face value. The impairment loss on goodwill shall not be reversed in following years.

C. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit Company expected to benefit from the merger of businesses generating the goodwill.

(24) Reserve for liabilities

The reserve for liabilities shall be recognized when the Company has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Company's reserve for liabilities for warranty shall be recognized when the goods or services are sold. The reserve for liabilities shall be measured under weighted method based on the historical warranty information and potential results subject to the relevant possibility.

(25) Treasury stock

The issued stock recalled by the Company is stated based on the consideration paid for repurchase (including direct vested cost), recognized as "treasury stock" at the net after tax and presented as a deduction from equity. Where the gain on disposal of treasury stock is higher than the book value, the difference shall be credited under the title “additional paid-in capital-transaction of treasury stock”. Where the gain is lower than the book value, the difference is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. The book value thereof is calculated based on the weighted average method according to the type of stock (common stock or special shares) and causes for the withdrawal.

Cancellation of treasury stock shall be credited under the title “treasury stock”, and debited as “additional paid-in capital-stock premium” and “capital stock”. Where the book value of treasury stock is higher than the total of the book value and stock premium, the balance is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. Where the book value of treasury stock is lower than the total of the book value and stock premium, the difference should be credited as the additional paid-in capital generated from the transactions of treasury stock under the same type.

(26) Revenue recognition

A. Sales of goods

(a) The Company manufactures and sells a range of semi-conductor production process and testing equipments in the market. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) The Company’s obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.

(c) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Labor service

The Company provides semi-conductor production process and testing equipments proxy services. Revenue from providing services is recognized in the accounting period in which the services are rendered. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

C. Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

D. Incremental costs of obtaining a contract

The Company recognizes an asset (shown as ‘Prepayments ’) the incremental costs (mainly comprised of sales commissions) of obtaining a contract with a customer if the Company expects to recover those costs. The recognized asset is amortized on a systematic basis that is consistent with the transfers to the customer of the goods or services to which the asset relates. The Company recognizes an impairment loss to the extent that the carrying amount of the asset exceeds the remaining amount of consideration that the Company expects to receive less the costs that have not been recognized as expenses.

(27) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(28) Government subsidies

The government subsidies shall be stated at fair value when it is reasonable to ensure that an enterprise will comply with the conditions incident to the government subsidies and the subsidies may be received affirmatively. If the government subsidies, in nature, are intended to compensate the expenses incurred by the Company, the government subsidies shall be stated as the current income on a systematic basis when the related expenses are incurred.

(29) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at non-discounted amount expected to be paid, and stated as expenses when the relevant services are provided.

B. Pension

(a) Defined contribution plan

Under the defined contribution plan, every contribution made to the pension fund is recognized as pension cost in the period occurred using the accrual basis. The prepaid contribution may be stated as assets, insofar as it may be refunded in cash or the future payment is reduced.

(b) Defined benefit plan

Ⓐ The net obligation under the defined benefit pension plan is converted to the present value based on the future benefit earned from the services provided by the employees under various benefit plans in the current period or in the past, and the present value of defined benefit obligations on the balance sheet date less the fair value of the planned assets. An actuary using the Projected Unit Credit Method estimates defined benefit obligations each year. The discount rate shall be based on the market yield rate of corporate bonds of high credit standing that have the same currency exposure and maturity date as the obligations on the balance sheet date, but the market yield rate of government bonds (on the balance sheet date) shall apply in the country where no market of corporate bonds of high credit standing is available.

Ⓑ The re-measurement generated from the defined benefit plan is stated as other comprehensive income in the period when it is incurred, and presented in the retained earnings.

Ⓒ The expenses related to the service cost in the previous period shall be recognized as income immediately.

Ⓓ The interim pension cost applied the pension cost ratio decided upon actuation at the end of the previous fiscal year, and was calculated from the beginning of year until the end of the current period. In the case of material changes in market and material reduction, repayment or other important event at the end, it shall be adjusted and related information shall be disclosed pursuant to said policies.

C. Resignation benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decision to terminate an employee’s employment before the normal retirement date, or an employee’s decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company will not state the benefits as expenses until the offer of benefits cannot be withdrawn or the related reorganization cost is stated, whichever earlier. It is not expected that benefits falling due more than 12 months after balance sheet date are discounted to their present value.

D. Remuneration to employee and directors/supervisors

The remuneration to employees and directors/supervisors shall be recognized as expenses and liabilities only when legal or constructive obligation is constituted and the value thereof may be estimated reasonably. Subsequently, if the actual distributed amount resolved is different from the estimate, the difference shall be treated as a change in accounting estimate.

(30) Employees' share-based payment

The transaction is share-based payment for settlement of equity. The share-based payment agreement shall measure the labor services provided by employees based on the fair value of the equity instruments granted on the date of granting, which shall be recognized as the remuneration cost during the vested period, and the equity shall be adjusted relatively.

The fair value of equity instruments shall reflect the effect produced by the vested conditions and non-vested conditions of market value. The recognized remuneration cost is adjusted based on the quantity of remuneration expected to meet service conditions and non-market value vested conditions, until the amount recognized ultimately is measured based on the vested quantity on the vested date.

(31) Income tax

A. The income tax expenses consist of current income tax and deferred income tax. The income tax shall be stated as income other than the income tax related to the titles stated into other comprehensive incomes or into equity directly, which shall be stated into other comprehensive income or into equities directly.

B. The Company calculates the income tax related to the current period based on the statutory tax rate or tax rate substantially enacted in the countries where the Company is operating and generating taxable income on the balance sheet date. The management shall evaluate the status of income tax return within the statutory period defined by the related income tax laws, and shall be responsible for the income tax expected to be paid to the tax collection authority. Undistributed earnings, if any, shall be levied income tax. Income tax expenses for undistributed earnings will be stated in the year next to the year when the earnings are generated, upon approval of the motion for allocation of earnings at a shareholders' meeting.

C. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction (exclusive of business merger) shall not be recognized; insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Company and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.

D. Deferred income tax assets shall be recognized, insofar as temporary difference is very likely to credit against future taxable income, and deferred income tax assets which are recognized and unrecognized shall be re-evaluated on each balance sheet date.

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

F. Unused tax credits derived from purchase of equipment or technology, R&D expenditure and equity investment can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against.

G. The average effective tax rate used to estimate the interim income tax expenses shall apply to the interim income before tax, and the relevant information shall be disclosed pursuant to said policies.

H. If a change in tax rate is enacted or substantively enacted in an interim period, the Company recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(32) <u>Business combination</u>

A. The Company adopts the acquisition method to proceed with business combination. The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be issued. The consideration for the transfer includes the fair value of any assets and liabilities generated from the contingent consideration agreement. The cost related to acquisition is stated as expense when it is incurred. The identifiable assets and liabilities acquired from the business combination shall be measured at the fair value on the day of acquisition. Based on individual acquisition transaction, the elements of non-controlling equity which refer to the current ownership, of which the holder is entitled to the business's net assets on a pro rata basis at the time of liquidation may choose to measure the fair value based on the fair value on the date of acquisition or subject to proportion of non-controlling equity in the acquired identifiable net assets. The other elements of non-controlling equity shall be measured at the fair value on the date of acquisition.

B. Goodwill arises when the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held exceeds the fair value of identifiable assets and liabilities. The price difference shall be stated as income on the date of acquisition if the fair value of identifiable assets and liabilities as acquired exceeds the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held.

(33) EPS

The Company will enumerate the basic and diluted EPS vested in the Company's common stock holders. The Company's EPS is calculated based on the income vested in the Company's common stock holders dividing by the number of shares of the weighted average outstanding common stock. The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the number of shares of the weighted average outstanding common stock. The Company's potential diluted common stock includes the stock options granted to employees.

(34) Information by department

The company has already disclosed the information on the segments in the consolidated financial statements and no disclosure of segments will be made in the financial statement of individual entities.

## 5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

A. Critical judgements in applying the Company's accounting policies

(1) Revenue recognition on a net/gross basis

The Company determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Company is a principal) or to arrange for the other party to provide those goods or services (i.e. the Company is an agent) based on the transaction model and its economic substance. The Company is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Company recognises revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Company is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Company recognises revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services.

(2) Indicators that the Company controls the good or service before it is provided to a customer include the following:

(a) The Company is primarily responsible for the provision of goods or services;

(b) The Company assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer.

(c) The Company has discretion in establishing prices for the goods or services.

B. Critical accounting estimates and assumptions

(1) Allowance for uncollectible accounts of receivable accounts

The company conducts assessment on the recoverability of account receivables on the basis of the credit quality of the customers and the collection of the accounts and the experience of uncollectible accounts in the past and estimates for the provision of doubtful accounts. If some event or change resulting in failure to collect the debt shows, it is necessary to estimate the allowance for uncollectible accounts. If the projected collected cash is different from the estimation, the difference will affect the book value of receivable accounts and expected credit loss in the year in which the estimation is changed. Until December 31, 2019, the book value of receivable accounts has been NT$1,389,572 thousand (exclusive of the allowance for uncollectible accounts, NT$18,761 thousand).

(2) Evaluation of inventory

Inventory shall be evaluated on the basis of the lower the cost and net realizable value. As such, the company must make judgment and estimate the net realizable value of the inventory on the balance sheet date. Rapid technological change compels the company to assess the amount of normal wearing out and phasing out of inventory or inventory with no market price and write off the cost of inventory from net realizable value. Until

December 31, 2019, the book value of the Company's inventories has been NT$2,130,195 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT$306,914 thousand)

(3) Realizability of deferred income tax assets

Deferred income tax assets shall be recognized only when it is very likely that there will be sufficient taxable income afford to deduct temporary difference. To evaluate the realizability of deferred income tax assets, the management has to exert judgment and estimation, including the hypotheses about expectation toward growth and profit rate of future sale revenue, applicable income tax credit and taxation planning. The transformation of global economic environments and industrial environments and changes in laws and regulations, if any, might result in material adjustment on deferred income tax assets. As of December 31, 2019, the Company had deferred income tax assets amounting to NT$104,640 thousand.

(4) Recognition of revenue

In principle, sale revenue is recognized at the time the earning process. The related reserve for liabilities is provided based on the estimated after-sale warranty cost potentially incurred due to historical experience and other known causes, and stated as the sale cost in the period in which the product is sold. The reasonableness of estimation is also reviewed periodically. As of December 31, 2019, the Company recognized provision for liabilities amounted to NT$6,572 thousand.

(5) Calculation of net defined benefit liability

In the calculation of the determined welfare obligation, the company must make use of judgment and estimate to determine relevant actuarial assumption on the balance sheet date, including the discount rate and growth of future salary. Any change in the actuarial assumption will affect the amount of determined welfare obligation of the company. As of December 31, 2019, the book value of accrual pension liabilities of the Company amounted to NT$29,324 thousand.

## 6. Notes to Major Accounting Titles

(1) Cash and cash equivalents

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash: | | |
| Cash on hand | $ 3,321 | $ 4,539 |
| Bank deposit: | | |
| Foreign currency deposit | 87,623 | 151,179 |
| Demand deposit | 306,782 | 549,371 |
| Time deposits | — | 17,884 |
| Total | $ 397,726 | $ 722,973 |

Bank deposits pledged by the company to the bank as collaterals have been recognized under the title of other current assets. Please refer to Note 8.

(2) Note receivables, net：None.

(3) Accounts receivable, net

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable | $ 948,488 | $ 689,184 |
| Less: Allowance for uncollectible accounts | ( 18,369) | (9,993) |
| Accounts receivable, net | $ 930,119 | $ 679,191 |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable -related party | $ 459,453 | $ 311,470 |
| Less: Allowance for uncollectible accounts | — | — |
| Accounts receivable -related party, net | $ 459,453 | $ 311,470 |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Receivable on demand (stated as other non-current assets) | $ 392 | $ 72 |
| Less: Allowance for uncollectible accounts | ( 392) | (72) |
| Receivable on demand, net | $ — | $ — |

A. All account receivables of the company are accrued from business operation and have not been pledged as collaterals.

B. For the information about the changes of allowance for uncollectible accounts provided for the impairment on receivable accounts and account age analysis on loans (for the disclosure of credit risk, please see Note 12(2)):

| | Group evaluation Impairment loss | Individual evaluation Impairment loss | Total |
|---|---|---|---|
| At January 1,2019 | 10,065 | - | 10,065 |
| Provision for impairment | 8,696 | - | 8,696 |
| Reversal of impairment | - | - | - |
| Write-offs during the period | - | - | - |
| At December 31, 2019 | $ 18,761 | $ - | $ 18,761 |
| At January 1,2018 **(IAS 39)** | $ 7,329 | $ - | $ 7,329 |
| Adjustments under new standards | - | - | — |
| At January 1,2018 **(IFRS 9)** | 7,329 | - | 7,329 |
| Provision for impairment | 2,736 | - | 2,736 |
| Reversal of impairment | - | - | - |
| Write-offs during the period | - | - | - |
| At December 31, 2018 | $ 10,065 | $ - | $ 10,065 |

C. Account age analysis on loans is stated as follows:

| | December 31, 2019 | | December 31,2018 | |
|---|---|---|---|---|
| | Total | Impairment | Total | Impairment |
| Undue | $ 1,223,507 | $ - | $ 875,676 | $ - |
| Overdue for 1~90 days | 146,135 | 10,229 | 115,855 | 8,110 |
| Overdue for 91~180 days | 25,858 | 3,879 | 4,954 | 743 |
| Overdue for 181~360 days | 7,836 | 1,959 | 3,777 | 944 |
| Overdue for 1~2 years | 4,605 | 2,302 | 392 | 196 |
| Overdue for more than 2 years | 392 | 392 | 72 | 72 |
| Total | $ 1,408,333 | $ 18,761 | $1,000,726 | $ 10,065 |

The above ageing analysis was based on past due date.

D. As of December 31, 2019 and December 31, 2018 accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to NT$897,842 thousand.

(4) Inventories

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw material | $ 620,819 | $ 644,033 |
| Supplies | 119,602 | 131,833 |
| Work in progress | 394,973 | 433,566 |
| Semi-finished goods | 348,015 | 348,101 |
| Finished goods | 920,792 | 1,122,839 |
| Commodity | 21,436 | 21,674 |
| Materials and supplies in transit | 11,472 | 18,846 |
| Less: Allowance for inventory devaluation and obsolescence losses | (306,914) | (253,513) |
| Inventory, net | $ 2,130,195 | $ 2,467,379 |

A. Expenses and losses related to inventory recognized in the current period:

| | 2019 | 2018 |
|---|---|---|
| Cost of inventories sold | $ 2,825,174 | $ 2,798,650 |
| Loss on market price decline inventories (gain from price recovery) | 53,401 | 10,573 |
| Loss on obsolescence of inventory | 10,802 | - |
| Other operating costs- employees' bonus | 25,592 | 19,226 |
| Estimated warranty liabilities | 12,951 | 10,268 |
| Operating Cost | $ 2,927,920 | $ 2,838,717 |

B. Before December 31, 2019 and 2018, the Company had not pledged its inventory as collaterals.

(5) Investments accounted for using equity method (Include Credit balance of investments account for using equity method)

The investment of the company accounted for under the equity method on the ending day of the financial reporting period:

| Investee | December 31, 2019 Book value | December 31, 2019 Ratio of shareholding % | December 31, 2018 Book value | December 31, 2018 Ratio of shareholding % |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| MPI TRADING CORP. | $ 60,858 | 100 % | $ 62,740 | 100 % |
| MMI HOLDING CO., LTD. | 490,841 | 100 % | 509,374 | 100 % |
| MEGTAS CO.,LTD. | 36,504 | 80 % | 40,265 | 80 % |
| Chain-Logic International Corp. | 212,867 | 100 % | 244,510 | 100 % |
| Allstron Corporation | 1,578 | 100 % | 1,644 | 100 % |
| **Affiliates**: | | | | |
| Total | $ 802,648 | | $ 858,533 | |
| Transfer to Credit balance of investments account for using equity method | | | | |
| MPA TRADING CORP. | $ 118,988 | 100 % | $ 68,397 | 100 % |

A. Changes in investment under equity method:

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning | $ 858,533 | $ 915,223 |
| Increase in investment in the current period | - | 13,861 |
| Cash dividend distributed by affiliates | (53,054) | (17,605) |
| Investment income (loss) recognized under equity method | (57,995) | 2,420 |
| Exchange difference arising from translation of the financial statement of foreign operations | (14,247) | (11,921) |
| Realized (unrealized) income from downstream transactions with investees | 18,937 | 22,094 |
| Other comprehensive income – Actuarial income (loss) of determined welfare | (118) | 47 |
| Proceeds from disposal of investments- Won Tung Technology Co., Ltd. | - | (4) |
| Proceeds from capital return of investments accounted for using equity method | - | (112,675) |
| Difference between consideration paid and carrying amount of subsidiaries acquired- MEGTAS CO.,LTD. | - | (4,576) |
| Transfer to Credit balance of investments account for using equity method | 50,592 | 51,669 |
| Balance, ending | $ 802,648 | $ 858,533 |

B. The information about affiliates important to the consolidated companies is stated as following:

Refer to the consolidated financial statements of FY2019

C. Book value and share of operating result of the affiliates not important to the Company individually：None.

D. The Company recognized the income of these investees on the basis of their respective audited financial statements in proportion to the investment by the company accounted for under the equity method in 2019 and 2018.

E. The financial statements of subsidiary MEGTAS CO., LTD. in FY2019 and FY2018 were audited by other certified public accountants. We did not audit these statements and based on the statements audited by other certified public accountants to recognize investment (loss) amounting to NT$(1,544) thousand and NT$5,693 thousand, respectively.

The financial statements of subsidiary MPI AMERICA INC. in FY2019 and FY2018 were audited by other certified public accountants. We did not audit these statements and based on the statements audited by other certified public accountants to recognize investment (loss) amounting to NT$(60,344) thousand and NT$(50,513) thousand, respectively.

F. The Company acquired 100% of the shares of Allstron Corporation ("Allstron") in March 2014 and controlled the company in whole.

<u>Goodwill Impairment Charges</u>

Upon the discussion of the management and report to the Board of Directors on March 24 of 2017, the Company has, according to the forecasted cash flow of Allstron Probing Solution, recognized the difference between the investment cost of the original investment day and the net equity value in the goodwill impairment loss with a value of NT$45,533 thousand for the year of 2016.

G. Company management board has on December 28, 2017 voted on a resolution to sell the entire shareholdings of the affiliated enterprise – MJC Microelectronics (Kunshan) Co., Ltd. of the group's subsidiary MMI Holding Co., Ltd to Japanese MJC Corporation (MJC is the parent firm of MJC Microelectronics (Kunshan) Co., Ltd.), and the two parties agree to set the total shareholding transfer transaction to the sum of RMB 18,000 thousand (at approximately NT$81,927 thousand, when calculated at the exchange rate of 4.5515 on Dec. 31, 2017), and planned to complete the liquidation proceedings in the next 12 months. The group has reclassified its investment held in MJC Microelectronics (Kunshan) Co., Ltd.'s book value amount totaling NT$71,302 thousand to under the non-liquid asset item on its combined balance sheet as of December 31, 2017.

On December 28, 2017, the Board of Directors meeting approved selling MMK (Kunshan) and sold on March 23, 2018. The distribution of surplus a total of NT$82,710 thousand was remitted. The Investment been approved by Commission on MOEA had the investment approved document. The original book value was NT$71,302 thousand. After writing off and transferring foreign currency translation reserve of financial report in the foreign operating institution, MMI HOLDING CO., LTD will recognize the disposal of investment gain NT$9,208 thousand.

H. MMI HOLDING CO., LTD., a subsidiary of the Group, transferred subsidiary MJC Microelectronics (Shanghai) Co., Ltd. completed the liquidation on August 31, 2018 and remitted the liquidation amount of NT$28,081 thousand (excluding the income tax NT$651 thousand), the recognition of the investment benefit is NT$1,733 thousand. The Investment been approved by Commission on MOEA had the investment approved document.

I. The Company invested MMI HOLDING CO., LTD., on April 25, 2018, the Board of Directors meeting approved reducing the cash capital US$2,857,000(equivalent to NT$84,006 thousand); on September 11, 2018, the Board of Directors meeting approved reducing the cash capital US$936,870(equivalent to NT$28,669 thousand).

J. On August 15, 2018, the Company passed the liquidation of WANG-TONG CORP., which was liquidated and written off on September 14, 2018, and remitted the surplus investment of NT$4 thousand.

K. In order to coordinate the corporation's operating program and promote the efficiency of capital usage, the Group has reported to the board of directors to takeover 20% of equity on MEGTAS CO., LTD. In ₩5,000 per share on November 8, 2018. The total investment cost is NT$13,861 thousand and the date of the takeover is on October 5, 2018. Besides the company will takeover 100,000 shares, and the shareholding ratio will increase from 60% to 80%. The difference between consideration paid and carrying amount of subsidiaries acquired was NT$4,576 thousand.

L. Guarantee

As of December 31, 2019 and 2018, the company had not pledged its investment accounted for under the equity method as collaterals.

(6) Property, plant and equipment

A. The changes in the cost, depreciations and impairments of the property, plant and equipment of the Company in FY2019 and FY2018:

| | Land | House and building | Machine & equipment | Furniture and fixtures | Research equipment | Other equipments | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| January 1, 2019 | $ 770,963 | $ 1,541,747 | $ 918,638 | $ 51,995 | $ 749,427 | $ 11,046 | $ 18,543 | $ 4,062,359 |
| Addition | - | 620 | 11,704 | 10,305 | 6,189 | - | 214,571 | 243,389 |
| Disposition | - | - | (131,368) | (15,251) | (52,777) | (2,455) | - | (201,851) |
| Transfer | - | - | 59,893 | 329 | 7,045 | - | - | 67,267 |
| December 31, 2019 | $ 770,963 | $ 1,542,367 | $ 858,867 | $ 47,378 | $ 709,884 | $ 8,591 | $ 233,114 | $ 4,171,164 |
| **Cost:** | | | | | | | | |
| January 1, 2018 | $ 770,963 | $ 1,453,346 | $ 857,577 | $ 61,349 | $ 768,172 | $ 11,397 | $ 57,571 | $ 3,980,375 |
| Addition | - | 19,196 | 21,950 | 10,637 | 3,516 | 627 | 31,555 | 87,481 |
| Disposition | - | - | (32,588) | (20,182) | (52,848) | (1,019) | - | (106,637) |
| Transfer | - | 69,205 | 71,699 | 191 | 30,587 | 41 | (70,583) | 101,140 |
| December 31, 2018 | $ 770,963 | $ 1,541,747 | $ 918,638 | $ 51,995 | $ 749,427 | $ 11,046 | $ 18,543 | $ 4,062,359 |
| **Depreciation and impairment:** | | | | | | | | |
| January 1, 2019 | $ - | $ 349,945 | $ 465,904 | $ 28,060 | $ 425,725 | $ 8,236 | $ - | $ 1,277,870 |
| Depreciation | - | 67,935 | 135,333 | 11,821 | 103,578 | 1,412 | - | 320,079 |
| Disposition | - | - | (125,907) | (15,236) | (51,674) | (2,454) | - | (195,271) |
| Transfer | - | - | (38) | - | - | - | - | (38) |
| December 31, 2019 | $ - | $ 417,880 | $ 475,292 | $ 24,645 | $ 477,629 | $ 7,194 | $ - | $ 1,402,640 |
| **Depreciation and impairment:** | | | | | | | | |
| January 1, 2018 | $ - | $ 285,663 | $ 356,595 | $ 33,557 | $ 365,679 | $ 7,437 | $ - | $ 1,048,931 |
| Depreciation | - | 64,282 | 137,825 | 14,673 | 112,894 | 1,818 | - | 331,492 |
| Disposition | - | - | (28,118) | (20,170) | (52,848) | (1,019) | - | (102,155) |
| Transfer | - | - | (398) | - | - | - | - | (398) |
| December 31, 2018 | $ - | $ 349,945 | $ 465,904 | $ 28,060 | $ 425,725 | $ 8,236 | $ - | $ 1,277,870 |
| **Net book value** | | | | | | | | |
| **December 31, 2019** | $ 770,963 | $1,124,487 | $ 383,576 | $ 22,733 | $ 232,255 | $ 1,397 | $ 233,114 | $ 2,768,524 |
| **December 31, 2018** | $ 770,963 | $1,191,802 | $ 452,734 | $ 23,935 | $ 323,702 | $ 2,810 | $ 18,543 | $ 2,784,489 |

B. The Company signed the contract with the non-related party about the new construction of Zhubei third factory at Zhubei City Tai Ho Section, in September 2019. The total contract amount was NT$465,000 thousand.

C. Guarantee

For details about the secured long-term loan and facility until December 31, 2019 and 2018, please see Note 8.

D. For the capitalized interest, please see Note 6(18) 2. Financial cost.

(7) Right-of-use assets and Lease liabilities

A. Leasing arrangements－lessee

Effective 2019

(a) The Company leases various assets including land, buildings, machinery and equipment, business vehicles. Rental contracts are typically made for periods of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

(b) The carrying amount of right-of-use assets and the depreciation charge are as follows:

| | December 31, 2019 | Jan.1~Dec. 31, 2019 |
|---|---|---|
| | Carrying amount | Depreciation charge |
| Land | $ 30,494 | $ 9,083 |
| Buildings | 26,836 | 34,538 |
| Transportation(Business vehicles) | 33,604 | 14,645 |
| Total | $ 90,934 | $ 58,266 |

(c) For the year ended in 2019, the additions to right-of-use assets were NT$60,206 thousand.

(d)The information on income and expense accounts relating to lease contracts is as follows:

| | Jan.1~ Dec. 31, 2019 |
|---|---|
| Items affecting profit or loss | |
| Interest expense on lease liabilities | $ 1,804 |
| Expense on short-term lease contracts | $ 4,953 |

(e) For the year ended in 2019, the Company's total cash outflow for leases were NT$59,374 thousand.

B. Lease liabilities

| | December 31, 2019 | December 31, 2018(Note) |
|---|---|---|
| Current | $ 45,256 | |
| Noncurrent | 46,372 | |
| Total | $ 91,628 | |

(Note)The Company adopted IFRS16 on January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision IFRS 16.

Please refer to Note 6(18) B. for the interest expense of lease liabilities.

C. Leasing arrangements – lessor

Effective 2019

(a) The Company leases various assets including part of office buildings. Rental contracts are typically made for periods within one year. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes.

(b) For the year ended in 2019, the Company recognized rent income in the amount of NT$14,434 thousand, based on the operating lease agreement, which does not include variable lease payments.

(8) Intangible assets

The cost, amortization and impairment of intangible assets of the Company in FY2019 and FY2018 are shown below:

| | | Computer software | | | Computer software |
|---|---|---|---|---|---|
| **January 1, 2019** | $ | 41,237 | **January 1, 2018** | $ | 40,955 |
| Addition | | 25,410 | Addition | | 25,960 |
| Reclassification | | - | Reclassification | | - |
| Amortization expenses | | (32,198) | Amortization expenses | | (25,678) |
| **December 31, 2019** | $ | 34,449 | **December 31, 2018** | $ | 41,237 |

A. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other noncurrent assets) 2019 and 2018 were stated as the following items in the comprehensive income statement:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Operating cost | $ | 19,704 | $ | 22,665 |
| Operating expense | | 29,721 | | 27,032 |
| Total amortization expenses | $ | 49,425 | $ | 49,697 |

B. R&D expenditure

In FY2019 and FY2018, the R&D spending deriving from intangible assets internally developed amounted to NT$700,653 thousand and NT$869,002 thousand, respectively, recognized under the title of "Operating expenses –R&D expenses" in the comprehensive income statement.

(9) Other non-current assets

| | | December 31, 2019 | | December 31, 2018 |
|---|---|---|---|---|
| Prepayments for equipment | $ | 51,168 | $ | 50,681 |
| Refundable deposit | | 26,271 | | 18,760 |
| Deferred Charges | | 22,750 | | 31,800 |
| Total | $ | 100,189 | $ | 101,241 |

The costs of Deferred Charges, amortization, and the impairment loss of the Company as of and for the ended of December 31, 2019 and 2018 were as follows:

| | | Deferred Charges | | | Deferred Charges |
|---|---|---|---|---|---|
| **January 1, 2019** | $ | 31,800 | **January 1, 2018** | $ | 37,510 |
| Addition | | 8,177 | Addition | | 16,931 |
| Reclassification | | — | Reclassification | | 1,378 |
| Amortization expenses | | (17,227) | Amortization expenses | | (24,019) |
| Impairment | | — | Impairment | | — |
| **December 31, 2019** | $ | 22,750 | **December 31, 2018** | $ | 31,800 |

(10) Short-term loan

| Nature of loan | December 31, 2019 Amount | December 31, 2019 Interest rate | December 31, 2018 Amount | December 31, 2018 Interest rate |
|---|---|---|---|---|
| Credit loan | - | - | $ 200,000 | 0.90% |
| Secured borrowings | $ 500,000 | 0.89% | 618,000 | 0.89% ~0.90% |
| Total | $ 500,000 | | $ 818,000 | |

1. For the information about exposure of the Company's interest rate and liquidity risks, please refer to Note 12(2).
2. Collateral for bank loan.

For bank loans secured by the Company's assets, please see Note 8.

(11) Other accounts payable

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Expenses payable | $ 528,808 | $ 548,770 |
| Employees' remuneration payable | 43,950 | 34,144 |
| Short-term employee benefits | 49,247 | 33,032 |
| Others (all less than 5%) | 15,437 | 9,604 |
| Total | $ 637,442 | $ 625,550 |

(12) Reserve for liabilities

| | Warranty | | Warranty |
|---|---|---|---|
| **Balance, January 1, 2019** | $ 4,859 | **Balance, January 1, 2018** | $ 3,210 |
| Increase (decrease) | 1,713 | Increase (decrease) | 1,649 |
| **Balance, December 31, 2019** | $ 6,572 | **Balance, December 31, 2018** | $ 4,859 |
| | | | |
| Current | $ 6,572 | Current | $ 4,859 |
| Non-current | - | Non-current | - |
| **Balance, December 31, 2019** | $ 6,572 | **Balance, December 31, 2018** | $ 4,859 |

The provision for warranty liabilities of the company in 2019 and 2018 was mainly related to the sales of semiconductor production process and test equipment. The provision for warranty liabilities is estimated on the basis of historical data on warranty. The Company expected most of the liabilities would be realized in the year after the sales.

(13)Corporate bonds-payable

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total amount of 4th domestic unsecured convertible corporate bond | $ 1,000,000 | $ 1,000,000 |
| Less: Conversion amount | (4,000) | - |
| Less: Convertible corporate bonds expired | - | - |
| Less：Buy back from open market | (36,700) | (34,800) |
| Less: Corporate bond discount | (56,815) | (72,357) |
| Corporate bond payable, net | $ 902,485 | $ 892,843 |
| | | |
| Current | $ - | $ - |
| Non-current | 902,485 | 892,843 |
| Total | $ 902,485 | $ 892,843 |

| | | |
|---|---|---|
| Embedded financial derivatives - financial liabilities (assets) | $ 384 | $ 9,266 |
| Elements of equity | $ 67,269 | $ 67,683 |

A. In order to repayment of bank loan, the Company issued 4th domestic unsecured convertible corporate bonds upon resolution of the board of directors on May 7, 2018, and upon approval of FSC via its approval letter under Ching-Kuan-Chen-Fa-Tze No. 1070325999 dated July 26, 2018. The issuance conditions are stated as following:

(a) Total issued amount: The Company issued NT$1,000,000 thousand of convertible bonds, each bond had a face value of NT$100 thousand; issued at 100.1% of the face value, a total of 10 thousand copies were issued.

(b) Duration: 5 years (August 15, 2018~ August 15, 2023)

(c) Coupon rate: 0%

(d) Duration: The day following expiration of three month after the date of issuance (November 16, 2018) until the expiry date (August 15, 2023).

(e) Conversion price and adjustment thereof:

Ⓐ The conversion price at the time of issuance shall be NT$71.50 per share.

Ⓑ In the case of changes in shares of common stock (e.g. capital increase in cash, recapitalization of earnings and recapitalization from capital surplus, et al.); the conversion price shall be adjusted relatively.

Ⓒ The Company's board of directors resolved on August 7, 2019 to authorize the Chairman to issue 4th domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 4th Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of September 10, 2019, the Company's 4th domestic unsecured convertible corporate bonds shall be adjusted as NT$69.2 per share.

(f) Bondholders' put option:

The bondholders may exercise the put option of the convertible bonds earlier on the record date for exercise of put option, namely, August 15, 2021 and August 15, 2022, upon expiration of three years and four years after issuance of the bonds. The bondholders may ask the Company to redeem the convertible bonds at 100% of the book value thereof in cash within 40 days prior to the record date for exercise of put option.

(g) The Company's right of redemption:

Ⓐ From the date following expiration of three month upon offering of the bonds (November 16, 2018) until 40 days prior to expiration of the duration (July 6, 2023), if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.

Ⓑ From the date following expiration of three month upon offering of the bonds (November 16, 2018) until 40 days prior to expiration of the duration (July 6, 2023), if the balance of the outstanding bonds is less than 10% of the initial total issue price, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.

(h) Date and method of repayment of principal:

Except those converted to the Company’s common stock by the bondholders according to the Regulations, or those redeemed upon exercise of the put option, or those redeemed by the Company earlier pursuant to the Regulations, or those repurchased by the Company from securities firms for cancellation, the others would be repaid in cash in full amount upon maturity.

B. As of the expiry (December 31, 2019), the accumulation of the 4th domestic unsecured conversion of corporate bonds had been issued 57 thousand shares with face value of NT$4,000 thousand, and recognized NT$3,465 thousand as Capital Surplus-Additional Paid-In Capital-Bond Conversion.

C. The Company analyzed the 4th domestic unsecured convertible corporate bonds according to IFRS No.7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively. The information about convertible corporate bonds in the financial statements is stated as following:

| | August 15, 2018 **(Issuing date)** |
|---|---|
| Total issuing amount of convertible corporate bond | $ 1,001,000 |
| Cost of convertible corporate bond | (5,381) |
| Elements of equity at the time of issuance - conversion option | (70,124) |
| Embedded financial derivatives at the time of issuance | (6,400) |
| Corporate bond payable, net on the issuing date | $ 919,095 |

The elements of equity were stated into capital surplus-stock option at the time of issuance. At the time of issuance, the fair value of embedded non-equity derivative was re-evaluated at the end of every month, which was stated into the “from financial assets and liabilities at fair value through profit or loss ".

The effective interest rate of the 4th unsecured convertible bonds after host contracts separation is 1.6885%.

D. (a) The "gain (loss) from financial assets and liabilities at fair value through profit or loss" was NT$8,867 thousand and NT$(3,200) thousand in 2019 and 2018.

(b) The Company recognized interest expense of convertible bonds were NT$15,155 thousand and NT$5,935 thousand start from January to December, at 2019 and 2018.

E. (a) Till December 31, 2018, the 4th unsecured convertible bonds in the amount of NT$34,800 thousand were repurchased by the company from open market, buy back price is NT$ 33,030 thousand that is shared to liabilities and equity with difference between book value, is recognized as capital surplus-treasury stock transaction NT$368 thousand, recognized in gain on repurchase of convertible bonds NT$1,564 thousand in 2018 (stated as other revenue-others).

(b) Till December 31, 2019, the 4th unsecured convertible bonds in the amount of NT$1,900 thousand were repurchased by the company from open market, buy back price is NT$1,802 thousand that is shared to liabilities and equity with difference between book value, is recognized as capital surplus-treasury stock transaction NT$19 thousand, recognized in gain on repurchase of convertible bonds NT$82 thousand in 2019(stated as other revenue-others).

(14) Long-term Loans

| Bank | Nature | Limit | Duration | December 31, 2019 |
|---|---|---|---|---|
| Chang Hwa Bank - Chengnei Branch | Mortgage loan | $ 1,134,880 | 2019/11/08~2029/10/15 | $ 142,208 |
| Less: current portion | | | | - |
| Total | | | | $ 142,208 |
| Interest rate range | | | | 0.88 % |

| Bank | Nature | Limit | Duration | December 31, 2018 |
|---|---|---|---|---|
| Land Bank of Taiwan - Tunghsinchu Branch | Mortgage loan | $ 574,000 | 2017/11/28~2020/11/28 | $ 38,150 (Note) |
| Land Bank of Taiwan - Tunghsinchu Branch | Mortgage loan | $ 201,100 | 2015/09/30~2020/09/30 | - (Note) |
| Land Bank of Taiwan - Tunghsinchu Branch | Mortgage loan | $ 163,000 | 2009/03/02~2022/03/02 | 30,313 |
| Less: current portion | | | | (29,233) |
| Total | | | | $ 39,230 |
| Interest rate range | | | | 1.28 %~1.42 % |

(Note) The above loan has been repaid in advance.

A. Information on the exposure of interest risk and liquidity risks of the company is shown in Note 12 (2).

B. Collateral for bank loan.

The company pledged its assets under lien as collaterals for the security of loans from the banks. Related information is shown in Note 8.

(15) Pension Benefits

A. Defined benefit plan

(a) The Company has established the regulation for retirement with welfare in accordance with the "Labor Standards Act", which is applicable to the years of service for full-time employees before the implementation of the "Labor Pension Act" on July 1 2005, and the employees continued to adopt the "Labor Standards Act" after the "Labor Pension Act" has come into effect. Employees who meet the retirement requirements will be paid the pension based on their years of service and average salary or wage of the last six (6) months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The company contributes at 2% of the total salary on a monthly basis to the pension fund and deposit at the special pension account under the title of the Pension Reserve Monitoring Committee at the Bank of Taiwan. As of December 2019, the balance of the pension contribution in the special account at the Bank of Taiwan amounted to NT$67,285 thousand.

(b) The amount recognized in the balance sheet is stated as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Present value of defined benefit obligation | $ 96,609 | $ 94,471 |
| Fair value of planned assets | (67,285) | (55,369) |
| Net defined benefit liability | $ 29,324 | $ 39,102 |

(c) Changes in the present value of defined benefit obligation:

| | 2019 | 2018 |
|---|---|---|
| Present value of defined benefit obligation, January 1 | $ 94,471 | $ 83,621 |
| Service cost in current period | 5,109 | 5,121 |
| Interest cost | 1,228 | 1,296 |
| Actuarial loss/gain | | |
| Actuarial loss (gain) from changes of financial hypotheses | 2,711 | 3,382 |
| Empirical adjustment | (6,910) | 5,179 |
| Benefit payment-from planned assets | - | (4,128) |
| Present value of defined benefit obligation, December 31 | $ 96,609 | $ 94,471 |

(d) Changes in fair value of planned assets:

| | 2019 | 2018 |
|---|---|---|
| Fair value of planned assets, January 1 | $ 55,369 | $ 51,924 |
| Interest revenue | 747 | 835 |
| Return (loss) on remuneration of planned assets | 1,819 | 1,212 |
| Contribution by employer | 9,350 | 5,526 |
| Benefit payment-from planned assets | - | (4,128) |
| Fair value of planned assets, December 31 | $ 67,285 | $ 55,369 |

(e) Total expenses recognized in comprehensive income statement:

| | 2019 | 2018 |
|---|---|---|
| Service cost in current period | $ 5,109 | $ 5,121 |
| Interest cost of defined benefit obligation | 1,228 | 1,296 |
| Interest revenue from planned assets | (747) | (835) |
| Defined benefit cost stated into income | $ 5,590 | $ 5,582 |

(f) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and Article 6 of the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Any deficits thereof shall be made up by the national treasury upon approval of the competent authority. As the Company was not entitled to participate in operation and management of the Fund, it was not impossible for the Company to disclose the classification of fair value of the planned assets in accordance with Paragraph 142 of Article 19 of IAS. For the fair value of the total assets under the Fund on December 31, 2019 and 2018, please see the labor pension fund utilization report published by the government each year.

(g) Actuarial hypotheses about pension are summarized as following: (expressed under weighted average method)

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 1.10% | 1.30% |
| Future salary and benefit level | 2.25% | 2.25% |

Until December 31, 2019, the weighted average duration of the pension plan has been 17.5 years.

(h) Analysis of sensitivity

In the calculation of the determined welfare obligation, the company must make use of judgment and estimate to determine relevant actuarial assumption on the reporting date, including the discount rate and update of future salary. Any change in the actuarial assumption may cause the amount of the determined welfare obligation of the company at significant level. Any change in the actuarial assumption will affect the amount of determined welfare obligation of the company.

(i) The variance in the estimation of discount rate and future salary level increase rate from the management will affect the book value of pension benefit obligation in the following manners:

| | **Discount rate** | | **Future raise rate** | |
|---|---|---|---|---|
| | **Increase by 0.25%** | **Decrease by 0.25%** | **Increase by 1.00%** | **Decrease by 1.00%** |
| December 31, 2019 | | | | |
| Effect on defined benefit obligation % | (3.49%) | 3.65% | 15.34% | (13.05%) |
| Amount of effect on defined benefit obligation | $ (3,372) | $ 3,526 | $ 14,820 | $ (12,607) |
| December 31, 2018 | | | | |
| Effect on defined benefit obligation % | (3.58%) | 3.75% | 15.86% | (13.44%) |
| Amount of effect on defined benefit obligation | $ (3,382) | $ 3,543 | $ 14,983 | $ (12,697) |

Said analysis of sensitivity refers to the analysis of the effect produced by any change of single hypothesis under the circumstance that the other hypotheses remain unchanged. In practice, a lot of changes in hypotheses might be linked with each other. The analysis of sensitivity adopted the same method used for calculation of net pension liability on the balance sheet.

The methods and hypotheses used by the analysis of sensitivity prepared in the current period are identical with those used in the previous period.

(j) The Company is expected to contribute NT$3,397 thousand to the Plan in the reporting period of next year.

B. Defined contribution plans

(a) With effect on July 1, 2005, the company has established the regulation for the contribution of pension fund in accordance with the "Labor Pension Act" which is applicable to employees of ROC nationality. For the employees electing to adopt the "Labor Pension Act" for retirement, the company allocates 6% of the respective monthly salary to their individual personal pension account at Labor Insurance Bureau. Pension will be disbursed on the basis of the deposit in the personal pension account with accumulated return payable monthly or in lump sum.

(b) In FY2019 and FY2018, the Company has recognized pension expenses amounted to NT$54,080 thousand and NT$52,763 thousand in accordance with the regulation for determination of pension allocation.

(16) EQUITY

A. The Company's outstanding common stock at beginning and ending is reconciled as follows:

| | **2019** | **2018** |
|---|---|---|
| Balance, January 1 | 79,901,388 | 79,901,388 |
| Corporate bond conversion | 57,338 | - |
| Balance, December 31 | 79,958,726 | 79,901,388 |

B. Capital surplus

(a) Pursuant to the R.O.C. Company Law amended in January 2012, capital surplus shall be first used to offset a deficit and then new shares or cash may be allocated based on realized capital surplus subject to shareholdings. Realized capital surplus referred to in the preceding paragraph included the surplus generated from donations and the excess of the issuance price over the par value of capital stock. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital.

(b) The balance of the Company's capital surplus:

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note1) | | |
| Common stock premium | $ 210,163 | $ 210,163 |
| Convertible corporate bond conversion premium | 597,406 | 593,941 |
| Treasury stock trading | 58,623 | 58,604 |
| May be used to offset a deficit only (Note2) | | |
| Donation from shareholders | 1 | 1 |
| Invalidated employee shareholding pledging | 27,005 | 27,005 |
| Such capital surplus may not be used for any purpose | | |
| Others-issuance of new shares due to acquisition of shares of another company | 19,858 | 19,858 |
| Stock option (Elements of equity of convertible corporate bonds) | 67,269 | 67,683 |
| Total | $ 980,325 | $ 977,255 |

(Note1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

(Note2) Such type of capital reserve pertains to bequeathing to the accepting shareholders without cash inflow or reclassification of invalidated employee shareholding pledging.

Ⓐ The company issued the first , second and third Domestic unsecured convertible corporate bonds; The company recognized NT$593,941 thousand as paid-in capital in excess of par-common stock and treasury stock transaction NT$8,477 thousand.

Ⓑ The 3rd domestic unsecured conversion of corporate bonds pay off convertible corporate bonds at expiry, in addition to bondholders with converting right not requesting for the conversion to be invalidated, the initially classified “capital reserve – shareholding pledging” balance at NT$27,005 thousand is reclassified as “capital reserve – invalidated shareholding pledging” item.

Ⓒ The Company issued last time Domestic unsecured convertible corporate bonds; The company recognized NT$49,759 thousand as paid-in capital in excess of par-common stock.

Ⓓ The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in June 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT$1 thousand.

Ⓔ The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. on June 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT$19,858 thousand on the date of investment, stated as capital surplus-others.

C. Retained earnings

(a) According to the company laws amended in May 2015, employee remuneration and remuneration to directors/supervisors shall not be allocated from earnings any longer. The Company has had the amended Articles of Incorporation resolved and approved by the board of directors on June 16, 2016. Therefore, if the Company has a profit at the year’s final accounting, it shall first pay profit-seeking enterprise income tax and make up any losses from past years, and then make contribution of 10% of the balance to the statutory reserve, unless the statutory reserve reaches the amount of the Company paid-in capital, and also make provision/reversal of special reserves pursuant to laws. The residual balance shall be added to undistributed earnings carried from previous years. The Board shall draft a motion for allocation of the residual balance plus the undistributed earnings, and submit the same to a shareholders' meeting to resolve whether shareholder bonus shall be allocated or the earnings shall be retained.

(b) The shareholders' meeting resolved to amend the Company Act of Incorporation as following on June 17, 2011: For the time being, the

Company's industrial development is still growing, the dividend policy requires that the board of directors shall draft the motion for allocation of earnings each year and submit the same to a shareholders' meeting for ratification, subject to the Company's present and future investment environments, funding demand, status of competition domestically/overseas and capital budget and by taking care of shareholders' interest, balanced stock dividend and the Company's long-term financial planning into consideration. The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.

(c) Legal reserve

According to the Company Law amended in January 2012, the Company shall contribute 10% from the income after tax as the legal reserve until it is equivalent to the gross capital. When the Company suffers no loss, new shares or cash may be allocated from the legal reserve upon resolution of the shareholders' meeting, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

(d) Special reserve

Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company provided special reserve NT$11,921 thousand to shareholders from earnings 2018 on June 11, 2019.

The Company provided special reserve NT$12,131 thousand to shareholders from earnings 2017 on June 12, 2018.

(e) The Company resolved to allocate the cash dividend, NT$159,803 thousand (NT$ 2 per share) by the shareholders' meetings from earnings 2018 on June 11, 2019.

The Company resolved to allocate the cash dividend, NT$39,951 thousand (NT$0.5 per share) by the shareholders' meetings from earnings 2017 on June 12, 2018.

(f) The information about allocation of retained earning approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(g) For the information about remuneration to employees and remuneration to directors/supervisors, please see Note 6(21).

D. Treasury stock：None.

F. Share-based payment－employee compensation plan

As of December 31, 2019, information on outstanding ESO is shown below: None.

## (17) OPERATING INCOME

### A. Operating income

| | 2019 | 2018 |
|---|---|---|
| Revenue from contracts with customers | | |
| Sales revenue | $ 4,880,918 | $ 4,658,630 |
| Processing Fees revenue | — | — |
| Others | | |
| Commission revenue | — | 45,590 |
| Total | $ 4,880,918 | $ 4,704,220 |

### B. Contract assets and contract liability

The Company recognized the contract assets and contract liability of the revenue from contracts with customers as following:

(a) Contract assets: None.

(b) Contract liability as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Contract liability-current | | |
| Sales revenue received in advance | $ 628,423 | $ 854,750 |
| Total | $ 628,423 | $ 854,750 |

Revenue of the contract liability recognized in the beginning:

| | 2019 | 2018 |
|---|---|---|
| At January 1 | | |
| Revenue recognized in this period | | |
| Sales revenue received in advance transfer to revenue | $ 485,351 | $ 485,223 |
| Total | $ 485,351 | $ 485,223 |

## (18) NON-OPERATING INCOME AND EXPENSES

### A. Other gains and losses, net

| | 2019 | 2018 |
|---|---|---|
| Gain (loss) from disposition of property, plant and equipment | $ 4,990 | $ 5,669 |
| Gain (debt) from financial assets and liabilities at fair value through profit or loss | 8,867 | (3,200) |
| Foreign currency exchange gain (loss), net | (26,727) | 25,412 |
| Gains(losses) on lease modification | (1) | - |
| Others | (1,090) | (530) |
| Total | $ (13,961) | $ 27,351 |

### B. Financial cost

| | 2019 | 2018 |
|---|---|---|
| Interest expenses | | |
| Bank loan | $ 7,114 | $ 17,895 |
| Convertible corporate bond | 15,155 | 5,935 |

| | | |
|---|---|---|
| Lease liabilities (Note) | $ 1,804 | - |
| Subtotal | 24,073 | 23,830 |
| Less: capitalized interest | (892) | (970) |
| Total | $ 23,181 | $ 22,860 |
| Capitalized interest rate | 0.76%~1.63% | 0.91%~1.88% |

(Note) The company and its subsidiaries have elected to apply IFRS 16 by not restating the comparative periods on January 1, 2019.

(19) Income Tax

A. The detail of income tax expenses (benefits) of the company is shown below:

| | 2019 | 2018 |
|---|---|---|
| Income tax in current period: | | |
| Generated in the current period | $ 85,731 | $ 56,845 |
| Overestimated (underestimated) income tax in previous year | (2) | 60 |
| Total income tax in the current period | 85,729 | 56,905 |
| Deferred income tax | | |
| Occurrence and reversal of temporary difference | (31,077) | (566) |
| Effect of changes in tax rate | - | (10,132) |
| Total deferred income tax | (31,077) | (10,698) |
| Total | $ 54,652 | $ 46,207 |

B. The Company recognized Income tax expenses in other comprehensive income are NT$ 0 start from January to December, at 2019 and 2018.

C. The Company income tax expenses recognized under the title of equity are NT$0 start from January to December, at 2019 and 2018.

D. Relations between income tax expenses (gains) and accounting profit

| | 2019 | 2018 |
|---|---|---|
| Net profit (loss) before tax | $ 483,022 | $ 380,769 |
| Income tax on net profit before tax calculated at the domestic tax rate applicable in the place where the Company is situated | $ 96,604 | $ 76,154 |
| Income tax effect included into the items that shall not be recognized pursuant to tax laws | 25,869 | (2,388) |
| Income tax effect on deferred income tax assets/liabilities | (31,077) | (566) |
| Unrecognized deferred income tax assets | - | - |
| Tax-free income | - | - |
| Maximum foreign-tax deduction | - | - |
| Income tax effect on investment credit | (36,742) | (24,362) |
| Imposition of income tax on undistributed earnings | - | 7,441 |
| Income tax effect under minimum tax system | - | - |
| Overestimated (underestimated) income tax in previous year | (2) | 60 |
| Effect of changes in tax rate | - | (10,132) |
| Total | $ 54,652 | $ 46,207 |

E. Deferred income tax assets and liabilities

(a) Recognized deferred income tax assets and liabilities

| | 2019 | | | | |
|---|---|---|---|---|---|
| | **January 1** | **Recognized in income statement** | **Recognized in other comprehensive income** | **Exchange difference** | **December 31** |
| **Deferred income tax assets** | | | | | |
| Temporary difference | | | | | |
| Unrealized inventory devaluation and obsolescence losses | $ 50,702 | $ 10,681 | - | - | $ 61,383 |
| Unrealized exchange loss | 446 | 5,337 | - | - | 5,783 |
| Unrealized warranty cost | 972 | 376 | - | - | 1,348 |
| Unrealized loss on valuation of nonfinancial asset | 9,107 | - | - | - | 9,107 |
| Unrealized gain on inter-affiliate accounts | 12 | 923 | - | - | 935 |
| Expected Credit (loss) gains | 11,762 | (3,786) | | | 7,976 |
| Tax difference on depreciation expenses | 15 | (1) | - | - | 14 |
| Realized net investment income (foreign) | 8,133 | - | - | - | 8,133 |
| Unrealized net investment income (foreign) | - | 9,961 | - | - | 9,961 |
| Total | $ 81,149 | $ 23,491 | - | - | $ 104,640 |

| | | | | | |
|---|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | | |
| Temporary difference | | | | | |
| Unrealized exchange gain | $ (489) | $ 222 | - | - | $ (267) |
| Unrealized net investment income (foreign) | (8,117) | 8,117 | - | - | - |
| Recognition of pension expenses (deficit) | (4,434) | (753) | - | - | (5,187) |
| Total | $ (13,040) | $ 7,586 | - | - | $ (5,454) |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **January 1** | **Recognized in income statement** | **Recognized in other comprehensive income** | **Exchange difference** | **December 31** |
| **Deferred income tax assets** | | | | | |
| Temporary difference | | | | | |
| Unrealized inventory devaluation and obsolescence losses | $ 41,300 | $ 9,402 | - | - | $ 50,702 |
| Unrealized exchange loss | 1,736 | (1,290) | - | - | 446 |
| Unrealized warranty cost | 545 | 427 | - | - | 972 |
| Unrealized loss on valuation of nonfinancial asset | 7,741 | 1,366 | - | - | 9,107 |
| Unrealized gain on inter-affiliate accounts | - | 12 | - | - | 12 |

| | | | | | |
|---|---|---|---|---|---|
| Expected Credit (loss) gains | 13,754 | (1,992) | | | 11,762 |
| Tax difference on depreciation expenses | 13 | 2 | - | - | 15 |
| Unrealized net investment income (foreign) | 6,913 | 1,220 | - | - | 8,133 |
| Total | $ 72,002 | $ 9,147 | - | - | $ 81,149 |

| **Deferred income tax liabilities** | | | | | |
|---|---|---|---|---|---|
| Temporary difference | | | | | |
| Unrealized exchange gain | $ (278) | $ (211) | - | - | $ (489) |
| Unrealized net investment income (foreign) | (10,534) | 2,417 | - | - | (8,117) |
| Recognition of pension expenses (deficit) | (3,779) | (655) | - | - | (4,434) |
| Total | $ (14,591) | $ 1,551 | - | - | $ (13,040) |

(b) Unrecognized deferred income tax assets：None.

(c) Unrecognized deferred income tax liabilities：None.

F. The investment credit tax on deferred income tax assets which has been recognized by the Company before December 31, 2019 shall be credited by the following deadline:

| Item | Total credit | Deducted amount | Credited balance in current period | Balance to be credited | Last year of credit |
|---|---|---|---|---|---|
| R&D spending in FY2019 | $ 58,278 | $ — | $ 36,742 | $ — | (non-deferred) |
| | $ 58,278 | $ — | $ 36,742 | $ — | |

(Note) According to the "Regulations Governing Investment Credit Applicable to a Company's R&D Expenditure" promulgated on November 8, 2010, the tax credit shall be no more than 30% of the income tax payable in the year and prohibited from being deferred until next year.

G Authorization of income tax:

The Company has its corporate income tax approved by the taxation authorities until 2017.

H. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from17% to 20% effective from January 1, 2018. The Company has accessed the impact of the change in income tax rate. Besides, the tax rate of undistributed earnings in 2018 was reduced from 10% to 5%.

(20) Earnings Per Common Share

A. Basic EPS

The basic EPS is calculated based on the income vested in the Company's common stock holders dividing by the weighted average number of outstanding common stock.

B. Diluted EPS

The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the weighted average number of outstanding common stock.

C. The Company's basic EPS and diluted EPS are calculated as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Amount after tax** | **Weighted average number of outstanding common stock (thousand shares)** | **EPS (NT$)** | **Amount after tax** | **Weighted average number of outstanding common stock (thousand shares)** | **EPS (NT$)** |
| **Basic EPS** | | | | | | |
| Net profit attributed to the Company's common stock shareholders | $ 428,370 | 79,913 | $ 5.36 | $ 334,562 | 79,901 | $ 4.19 |
| **Diluted EPS** | | | | | | |
| Net profit attributed to the Company's common stock shareholders | $ 428,370 | 79,913 | | $ 334,562 | 79,901 | |
| Effect of all potential diluted common stocks | | | | | | |
| 4th domestic unsecured convertible corporate bond | - | 13,863 | | - | 13,499 | |
| Employee stock bonus | - | 556 | | - | 649 | |
| Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks | $ 428,370 | 94,332 | $ 4.54 | $ 334,562 | 94,049 | $ 3.56 |

For the details about capital increase, please see Note 6(16).

(21) Employee benefits, depreciation, depletion and amortization expenses are summarized as follows

| Nature \ Function | 2019 Operating cost | 2019 Operating expense | 2019 Total | 2018 Operating cost | 2018 Operating expense | 2018 Total |
|---|---|---|---|---|---|---|
| Employee benefit expense | | | | | | |
| Salary expense (including employees' compensation) | 841,051 | 583,719 | 1,424,770 | 819,428 | 589,350 | 1,408,778 |
| Labor/health insurance expenses | 53,515 | 34,894 | 88,409 | 55,669 | 38,928 | 94,597 |
| Pension expenses | 34,770 | 24,900 | 59,670 | 33,196 | 25,149 | 58,345 |
| Director remuneration | — | 6,200 | 6,200 | — | 6,002 | 6,002 |
| Other employee benefit expenses (Note) | 88,869 | 18,844 | 107,713 | 89,324 | 21,787 | 111,111 |
| Depreciation expenses | 287,302 | 91,043 | 378,345 | 233,203 | 98,289 | 331,492 |
| Depletion expenses | — | — | — | — | — | — |
| Amortization expenses | 19,704 | 29,721 | 49,425 | 22,665 | 27,032 | 49,697 |

(Note) The other employee benefit expenses including meal expenses, overtime pay and workers' benefits.

A. For the year ended of December 31, 2019 and 2018, The number of employees of the Company was 1,537 and 1,550, of which the number of directors who were not employees concurrently was 3 and 3 respectively.

B. Companies which are listed in Taiwan Stock Exchange or Taipei Exchange should disclose the following information:

(a) The average employee benefit expenses was NT$1,100 thousand for the year ended 2019 [(total amount of employee benefit expenses – total amount of director remuneration) / (total number of employees – the number of directors who were not employees concurrently)].

The average employee benefit expenses was NT$1,085 thousand for the year ended 2018 [(total amount of employee benefit expenses – total amount of director remuneration) / (total number of employees – the number of directors who were not employees concurrently)].

(b) The average salary expenses was NT$929 thousand for the year ended 2019 [total amount of salary expenses / (total number of employees – the number of directors who did not have concurrent employees)].

The average salary expenses was NT$911 thousand for the year ended 2018 [total amount of salary expenses / (total number of employees – the number of directors who did not have concurrent employees)].

(c) The adjustment change of average salary expenses was 1.98% [(the average salary expenses in 2019 – the average salary expenses in 2018) / the average salary expenses in 2018].

C. According to the Company's existing articles of incorporation, the Company shall allocate remuneration to employees and remuneration to directors/supervisors when allocating the earnings. For the details about capital increase, please see Note 6(16).

D. (a) The original articles of incorporation are as follows：

Where the Company retains income before tax after the account settlement, it shall allocate 5%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.

(b)The Company has approved the motion for amendments to the Articles of Incorporation on June 12, 2018:

Where the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph. The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.

Employees' remuneration may be paid in the form of stock or in cash, and can be paid to employees of affiliated companies that satisfy certain criteria.

E. The Company estimated the remuneration to employees was NT$43,950 thousand and NT$34,144 thousand, respectively, in 2019 and 2018, and the remuneration to directors/supervisors NT$9,920 thousand and NT$9,603 thousand. Said values were stated into salary expenses. The values were estimated based on the earnings gained until the current period (this year).

F. The remuneration to employees and directors/supervisors 2018 resolved to be allocated at the shareholders' meeting on June 11, 2019 by the Board of Directors meeting were NT$34,144 thousand and NT$9,603 thousand, respectively, identical with that recognized in the financial statement 2018, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2019.

G. The remuneration to employees and directors/supervisors 2017 resolved to be allocated at the shareholders' meeting on June 12, 2018 by the Board of Directors meeting were NT$9,323 thousand and NT$0 , respectively, identical with that recognized in the financial statement 2017, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2018.

H. The information about remuneration to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(22) Supplemental cash flow information

A. Investing activities paid in cash in part only:

| | 2019 | 2018 |
|---|---|---|
| Purchase of property, plant and equipment | $ 311,199 | $ 188,684 |
| Add: Payables for equipment, beginning | 19,530 | 82,660 |
| Less: Payables for equipment, ending | (65,720) | (19,530) |
| Cash paid in current period | $ 265,009 | $ 251,814 |

B. Financing activities not affecting cash flow:

| | 2019 | 2018 |
|---|---|---|
| Conversion of corporate bond conversion into capital stock | $ 573 | $ – |

## 7. Transactions with related parties

### (1) Relations between parent company and subsidiary

The Company's subsidiaries are stated as follows:

| | | Owner's equity (shareholding %) | |
|---|---|---|---|
| | Place of incorporation | December 31, 2019 | December 31, 2018 |
| Chain-Logic International Corp. | Taiwan | 100% | 100% |
| Allstron Corporation | Taiwan | 100% | 100% |
| MPI TRADING CORP. | Samoa | 100% | 100% |
| MMI HOLDING CO.,LTD. | Samoa | 100% | 100% |
| MPA TRADING CORP. | Anguilla | 100% | 100% |
| CHAIN-LOGIC TRADING CORP. | Mauritius | 100% | 100% |
| CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | Mainland China | — | 100% |
| Lumitek (Changchou) Co. Ltd. | Mainland China | 100% | 100% |
| MEGTAS CO.,LTD. | Korea | 80% | 80% |
| MPI AMERICA INC. | USA | 100% | 100% |

### (2) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

### (3) The names and relationship of related parties

| Names of related parties | Relationship with the Company |
|---|---|
| CHAIN-LOGIC INTERNATIONAL CORP. (CLIC) | Subsidiary |
| CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | Subsidiary- a subsidiary of CLIC (liquidated in November 11, 2019) |
| MEGTAS CO.,LTD. (MEGTAS) | Subsidiary |
| Lumitek (Changchou) Co. Ltd.( LUMITC) | Subsidiary- a subsidiary of MMI HOLDING CO., LTD |
| MPI (SUZHOU) CORPORATION (MPS) | Subsidiary- a subsidiary of MMI HOLDING CO., LTD |
| MPI AMERICA INC. (MPA) | Subsidiary- a subsidiary of MPA TRADING CORP. |
| MICRONICS JAPAN CO., LTD (MJC) | The parent company of the affiliated enterprise |
| MJC Electronics Corporation (MEC) | The Company's director – a subsidiary of MJC |
| MMK (Kunshan) | Associates (Disposed in March , 2018) |

### (4) Important transactions with related parties

#### A. Operating revenue

The Company's sales values to related parties are stated as follows:

| Type | 2019 | 2018 |
|---|---|---|
| **Sale of products:** | | |
| -Essential related party | | |
| MEC | $ — | 31 |
| -Subsidiary | | |

| | | |
|---|---|---|
| CLIC | 52,402 | 28,694 |
| LUMITC | 1,759 | 5,306 |
| MPS | 209,987 | 75,467 |
| MPA | 418,869 | 421,834 |
| Others | — | 1,703 |
| **Sale of labor services:** | | |
| -Essential related party | | |
| MJC | — | 45,590 |
| Total | $ 682,837 | $ 578,625 |

The price of the Company's sale to related parties was not significantly different from the Company's general selling price.

B. Purchase

The Company's purchase values to related parties are stated as follows:

| Type | 2019 | 2018 |
|---|---|---|
| Subsidiary | | |
| CLIC | $ 11,124 | $ 9,732 |
| MPS | 16,856 | - |
| Total | $ 27,980 | $ 9,732 |

The price of the Company's purchase from related parties was not significantly different from the Company's price of purchase from the general suppliers.

C. Accounts receivable-related parties

The Company's accounts receivable-related parties are stated as following:

| Title | Type | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Accounts receivable | Subsidiary | | |
| | CLIC | $ 18,792 | $ 14,427 |
| | LUMITC | 480 | 64,617 |
| | MPS | 208,057 | 41,457 |
| | MPA | 232,124 | 190,159 |
| | Others | - | 810 |
| Accounts receivable | | 459,453 | 311,470 |
| Less: Loss allowance | | - | - |
| Accounts receivable, net | | $ 459,453 | $ 311,470 |
| | | | |
| Other accounts receivable | Subsidiary | | |
| | CLIC | $ 1,191 | $ 1,055 |
| | LUMITC | 14,354 | 12,318 |
| | MPS | 41,701 | 14,930 |
| | Total | $ 57,246 | $ 28,303 |

D. Accounts payable-related parties

The Company's accounts payable-related parties are stated as following:

| Title | Type | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Accounts payable | Subsidiary-CLIC | $ 3,627 | $ 2,972 |
| | MPA | 216 | - |
| | | $ 3,843 | $ 2,972 |
| Other accounts payable | Subsidiary | | |

| | | 2019 | 2018 |
|---|---|---|---|
| | CLIC | 20,916 | 99,759 |
| | MPS | 1,549 | 2,431 |
| Total | | $ 22,465 | $ 105,162 |

E. Prepayment：None.

F. Exchange of property

a. Acquisition of property, plant, and equipment：None.

b. Disposition of property, plant, and equipment:

2019：

| Related parties | Nature | Cost | Accumulated depreciation | Net book value | Sales price | Gain (loss) on disposal |
|---|---|---|---|---|---|---|
| Subsidiaries-MPS | Machinery equipment | $ 5,831 | $ (370) | $ 5,461 | $ 9,727 | $ 4,266 |
| | Office equipment | $ 26 | $ (23) | $ 3 | $ 34 | $ 31 |
| | Research equipment | $ 1,573 | $ (470) | $ 1,103 | $ 1,796 | $ 693 |

2018：

| Related parties | Nature | Cost | Accumulated depreciation | Net book value | Sales price | Gain (loss) on disposal |
|---|---|---|---|---|---|---|
| Subsidiaries-MPS | Machinery equipment | $ 24,949 | $ (19,816) | $ 5,133 | $ 9,494 | $ 4,361 |

G. Loan to others (stated as other receivable accounts-related party)

2019: None.

2018:

| Type | Maximum balance | Balance ending | Interest rate % | Interest revenue |
|---|---|---|---|---|
| Subsidiary-Megtas | $ 4,629 | $ - | 4.99% | $ 52 |

H. Purchase of labor services from related parties

The Company's expenditure in labor services to related parties are stated as follows:

| Type | 2019 | 2018 |
|---|---|---|
| **Promotion-expenditure in commission:** | | |
| -Subsidiary | | |
| CLIC | 58,226 | 55,025 |
| MPS | 15,674 | 23,852 |
| Total | $ 73,900 | $ 78,877 |

I. Others

a. Payment on behalf of others (stated as other current assets): None.

b. Advance sale receipts

| Type | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Essential related party Director of the original Company) | | |
| MEC | $ - | $ 265 |
| Subsidiary | | |
| CLIC | 12,906 | 2,777 |
| MPA | 28,311 | 5,485 |
| Total | $ 41,217 | $ 8,527 |

c. Temporary receipts (stated as other current liabilities): None.

d. Manufacturing expenses (stated as operating cost)

| Type | Nature | 2019 | 2018 |
|---|---|---|---|
| Subsidiary | | | |
| CLIC | Repair and maintenance expense | $ 6 | $ — |
| MPS | Other expenses | $ 1,721 | $ 1,672 |
| Megtas | Consumables | $ 123 | $ — |
| MPA | Shipping expense | $ 14 | $ — |

e. Selling expenses

| Type | Nature | 2019 | 2018 |
|---|---|---|---|
| Subsidiary | | | |
| CLIC | Other expenses | $ 739 | $ 1,088 |
| MPS | Other expenses | $ 27 | $ 154 |
| MPA | Advertising Expenses | $ - | $ 121 |
| MPA | Shipping expense | $ 93 | $ - |
| MPA | Other expenses | $ 135 | $ - |

f. Management expenses

| Type | Nature | 2019 | 2018 |
|---|---|---|---|
| Subsidiary | | | |
| CLIC | Dormitory fees paid by employees | $ (9) | $ (37) |

g. Research expenses

| Type | Nature | 2019 | 2018 |
|---|---|---|---|
| Subsidiary | | | |
| CLIC | Other expenses | $ 2 | $ - |

h. Lease

The Company's lease revenue from related parties is stated as follows:

| Type | 2019 | 2018 |
|---|---|---|
| Subsidiary-CLIC | $ 3,973 | $ 3,823 |

The main contents of lease contract:

| Type | Subject matter | Duration of lease | Mode of collection |
|---|---|---|---|
| Subsidiary | Sublet the factory premises building and parking lots at Wenshan Road, Xinpu Township, Hsinchu County | 2014/12/21~2017/12/20, Renewed automatically upon expiration , and resigned for 2019/01/01~2019/12/31, | NT$242 thousand per month (before tax) The rent of parking lots was calculated subject to the actual service condition on a monthly basis. |
| Subsidiary | Rent the branch company office at Luchu, Kaohsiung City | 2008/04/18~2009/04/17 Renewed automatically upon expiration , and resigned for 2019/01/01~2019/12/31, | NT$10 thousand per month (before tax) |
| Subsidiary | Jiaren St., Zhubei City, Hsinchu County (Employee dormitory) | 2005/12/01~2006/11/30, Renewed automatically upon expiration | Settled based on the actual number of persons on a monthly basis. |

i. Other revenue

| Type | 2019 | 2018 |
|---|---|---|
| Subsidiary | | |
| CLIC | 458 | 534 |
| LUMITC | 17,147 | 15,001 |
| MPS | 26,270 | 7,696 |
| MPA | 8,063 | 2,712 |
| Total | $ 51,938 | $ 25,943 |

j. Information about remuneration to the management

Information about remuneration to the Company's management is stated as follows:

| | 2019 | 2018 |
|---|---|---|
| Salary and other short-term employee benefits | $ 9,517 | $ 9,581 |
| Resignation benefits | - | - |
| Retirement benefits | - | - |
| Other long-term benefits | - | - |
| Total | $ 9,517 | $ 9,581 |

Said remuneration to the management is decided by the Remuneration Committee subject to personal performance and market trend. For the relevant information, please see the annual report of the general shareholders' meeting.

## 8. Pledged assets

The following assets have been provided to the Company as the collaterals for bank loans, import business tax and sale commitment. The book value thereof is stated as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Land | $ 770,963 | $ 770,963 |
| Building | 831,450 | 857,912 |
| Pledged time deposit (stated as other current assets) | 3,453 | 2,719 |
| Total | $ 1,605,866 | $ 1,631,594 |

## 9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: None.

(2) Commitment:

A. Balance of unused letter of credit issued by the Company, guarantee money paid and service charges: None.

B. The outstanding amount under the purchase orders signed for the Company's purchase of equipment is stated as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Purchase of property, plant and equipment | $ 476,599 | $ 2,012 |

C. The Company's significant long-term rent:

Effective 2018

(a) The Company rented the land lots in Tainan Science Park from Southern Taiwan Science Park Administration for construction of Luchu 1st Plant and 2nd Plant. According to the lease contract, the lease of the land shall persist for no more than 20 years, and the lease shall expire on December 31, 2024. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Company is prohibited from claiming the continuance of lease or irregular lease with any excuse. In the case of land price re-set by the government pursuant to laws, the rent shall be adjusted and collected based on the re-set land price.

(b) The Company rented the land at Taiho Section, Zhubei City, Hsinchu Country from a non-related party for parking lots. The lease shall expire on May 14, 2022. The Company shall surrender the land to the lessor upon expiration of termination of the lease contract.

(c) The Company rented the land and the construction at Zhonghe Street, Zhubei City, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on August 31, 2019. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

(d) The Company rented the land and the construction at Guangfu Rd, Hukou Township, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on September 30, 2021. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

The income expenses for said two lots of long-term operating leased land were stated as NT$16,001 thousand in 2018.

The future payable rent for important long-term operating lease is stated as follows:

| | December 31, 2018 |
|---|---|
| Less than one year | $ 14,653 |
| One year to five years | 33,457 |
| More than five years | 4,683 |
| Total | $ 52,793 |

**10. <u>Significant disaster loss</u>: None.**

**11. <u>Significant subsequent events:</u> None.**

## 12. Others

(1) Capital management

The Company's capital management objective is intended to protect the Company's continued operation and ensure maintenance of well-founded credit ratings and optimal capital structure to reduce capital cost, in order to support the enterprise's operation and maximization of shareholders' return. The Company manages and adjusts the capital structure subject to the economic condition. The Company might adjust the stock dividend to be paid, refund of capital, issuance of new shares or realization of assets to reduce liabilities, in order to maintain and adjust the capital structure.

The Company controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Company maintained the same strategy in 2019 as that in 2018, dedicated to maintaining the debt/equity ratio less than 70%~120%. The Company's debt ratios on December 31, 2019 and December 31, 2018 are stated as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total liabilities | $ 3,558,974 | $ 4,027,514 |
| Total net worth | 4,370,704 | 4,106,841 |
| Debt/equity ratio | 81% | 98% |

(2) Financial instruments by category

A. The financial instruments of the Company are stated as follows:

(a) Financial assets: Including financial assets measured at fair value through profit, cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid and other financial assets.

(b) Financial liabilities: Including financial liabilities measured at fair value through profit, short-term loans, notes payable, accounts payable, other payables, lease liabilities, bonds payable(including current portion), long-term borrowings(including current portion), guarantee deposits received and other financial liabilities.

B. Risk management policies

(a) The Company's financial risk management aims to manage the market risk, credit risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.

(b) The Company has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Company shall strictly comply with the requirements related to financial risk management defined by the Company.

C. Significant financial risks and degrees of financial risks

(a) Market risk

The Company's market risk arises from market price fluctuation resulting in fluctuation of the fair value or cash flow of financial instruments. The market risk primarily includes foreign exchange risk, interest rate risk and other pricing risks.

Practically, few single risk variances would change independently. Additionally, changes of various risk variances are generally correlative to each other. Notwithstanding, the sensitivity analysis of the following risks does not take the interaction of related risk variances into consideration.

Ⓐ Foreign exchange risk

The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currencies, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognized assets.

The Company's receivable accounts denominated in foreign currency are identical with payable accounts denominated in foreign currency in some currencies and, therefore, the equivalent positions would produce the hedging effect naturally. Considering that said natural hedging did not meet the hedging accounting policy, the Company did not adopt the hedging accounting policy. Further, the net investment in foreign operations was identified as strategic investment. Therefore, the Company did not adopt any hedging policy against it.

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Company's income and equity. The Company's foreign exchange risk arises primarily from fluctuation in the foreign exchange rate of USD, Japanese Yen, Euro and RMB.

The Company's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or Won). Therefore, the Company would be subject to the effect produced by fluctuation in foreign exchange rate. The information about assets denominated in foreign currency exposed to significant effect produced by fluctuation in foreign exchange rate is stated as follows:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Currency unit** | **Amount in foreign currency (thousand dollars)** | **Applicable foreign exchange rate, ending (Dollar)** | **Book value (NTD) (thousand dollars)** |
| **Financial assets** | NTD/USD | $ 30,091 | 29.944 | $ 901,049 |
| | NTD/JPY | $ 1,832 | 0.27541 | $ 504 |
| | NTD/EUR | $ 24 | 33.429 | $ 806 |
| | NTD/RMB | $ 20,735 | 4.4165 | $ 91,576 |
| | NTD/KRW | $ 5,188 | 0.0262 | $ 136 |
| | NTD/HKD | $ 11 | 3.795 | $ 41 |
| | NTD/SGD | $ 18 | 22.155 | $ 406 |
| | NTD/MYR | $ 18 | 7.033 | $ 126 |
| | NTD/THB | $ 2 | 0.9752 | $ 2 |
| | NTD/CHF | $ 1 | 30.72 | $ 41 |
| | NTD/PHP | $ 91 | 0.5847 | $ 53 |
| | NTD/INR | $ 1 | 0.4728 | $ 1 |
| | NTD/GBP | $ 123 | 39.3611 | $ 4,851 |
| **Financial liabilities** | NTD/USD | $ 1,665 | 30.040 | $ 50,023 |
| | NTD/JPY | $ 7,781 | 0.2782 | $ 2,164 |
| | NTD/EUR | $ 766 | 35.910 | $ 27,520 |
| | NTD/GBP | $ 5 | 39.5845 | $ 207 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Currency unit** | **Amount in foreign currency (thousand dollars)** | **Applicable foreign exchange rate, ending (Dollar)** | **Book value (NTD) (thousand dollars)** |
| **Financial assets** | NTD/USD | $ 22,219 | 30.668 | $ 681,426 |
| | NTD/JPY | $ 4,819 | 0.2781 | $ 1,340 |
| | NTD/EUR | $ 28 | 35.481 | $ 992 |
| | NTD/RMB | $ 28,530 | 4.4507 | $ 126,976 |
| | NTD/KRW | $ 5,255 | 0.02775 | $ 145 |
| | NTD/HKD | $ 15 | 3.863 | $ 59 |
| | NTD/SGD | $ 12 | 22.355 | $ 276 |
| | NTD/MYR | $ 5 | 7.112 | $ 36 |
| | NTD/THB | $ 2 | 0.9186 | $ 2 |
| | NTD/CHF | $ 1 | 30.98 | $ 41 |
| | NTD/PHP | $ 15 | 0.5771 | $ 9 |
| | NTD/INR | $ 9 | 0.4348 | $ 4 |
| | NTD/GBP | $ 1 | 38.73 | $ 41 |
| **Financial liabilities** | NTD/USD | $ 2,340 | 30.758 | $ 71,997 |
| | NTD/JPY | $ 40,610 | 0.2801 | $ 11,375 |
| | NTD/EUR | $ 553 | 37.736 | $ 20,896 |
| | NTD/RMB | $ 520 | 4.675 | $ 2,430 |
| | NTD/SGD | $ 1 | 22.567 | $ 27 |

In consideration of the Company's multiple functional currency types, the information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) were NT$(26,727) thousand and NT$25,412 thousand until December 31, 2019 and 2018.

Ⓑ Cash flow and fair value interest rate risk

The interest rate risk arises when the fluctuation of market interest rate results in fluctuation in fair value of financial instruments or in future cash flow. The Company's interest rate risk arises primarily from the loan with floating interest rate.

The Company maintained adequate portfolio with fixed and floating interest rates to manage the interest rate risk.

Ⓒ Pricing risk

Due to the fact that in the investment held by the Company indicated in the individual balance sheet, the Company did not hold the financial assets including equity instruments. Therefore, the Company did not suffer significant pricing risk.

Ⓓ Other risks over market value

In addition to meeting expected consumption and sale needs, the Company did not sign any product contract which did not apply net settlement.

Ⓔ Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on December 31, 2019 and 2018 are stated as following:

**December 31, 2019**

| Primary risk | Range of change | Sensitivity of income |
|---|---|---|
| Foreign exchange risk risk | Fluctuation in foreign exchange rate+/- 3% | +/-27,501 thousand |
| Interest rate risk | Loan with floating interest rate +/- 0.25% | +/-1,606 thousand |

**December 31, 2018**

| Primary risk | Range of change | Sensitivity of income |
|---|---|---|
| Foreign exchange risk risk | Fluctuation in foreign exchange rate+/- 3% | +/-21,136 thousand |
| Interest rate risk | Loan with floating interest rate +/- 0.25% | +/-2,216 thousand |

(b) Credit risk

Ⓐ Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income.

Ⓑ The Company set up the management of credit risk by Company perspective. According to the loan policy expressly defined internally in the Company, each business dept. Within the Company shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers’ credit risk, including the unearned accounts receivable and undertaken transactions. The Company also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.

Ⓒ For the year ended December 31, 2019 and 2018, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart’s failure to perform contract.

Ⓓ The Company's Finance Dept. Manages the credit risk over the deposits in banks and other financial instruments according to the Company's policy. The Company’s trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.

Ⓔ Guarantee

According to the Company's policy, the Company may only make financial guarantee for the subsidiaries wholly owned by the Company. Before December 31, 2019 and December 31, 2018, the Company has never made any endorsements/guarantees.

Ⓕ The Company adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

Ⓖ The Company in line with credit risk management procedure, when the counterparty of transaction has financial difficulties, business accidents, restrictions on the acceptance of orders due to legal restrictions, refunds of company bills and any factors (such as fires, earthquakes and natural disasters). A default is considered to have occurred in the event that the possibility of recovering the receivable is very low, the default has occurred.

Ⓗ The Company classifies customer's notes receivable, accounts receivable, contract assets and rents receivable in accordance with geographic area, product types, credit rating of customer, collaterals, credit risk on trade and customer types. The Company applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

Ⓘ The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights.

Ⓙ The Company used the foreseeable of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the loss allowance of notes receivable and accounts receivable. The Company use provision matrix to estimate expected credit loss under the provision matrix basis. The provision matrix basis based on historical default rates observed during the lifetime of accounts receivable to adjust. On each reporting day, the Company updated the observed historical default rates and analyzed changes. On December 31, 2019 and 2018, the Company expected credit loss rate during the lifetime is stated as follow:

| | **Notes Receivable** | **Accounts Receivable** | | | | | |
|---|---|---|---|---|---|---|---|
| | dishonoured check | Without past due | 1~90 days | 91 to 180 days | 181 to 360 days | 1 to 2 years | More than 2 year |
| Expected loss rate | 100% | 0% | 7% | 15% | 25% | 50% | 100% |

Ⓚ The Company grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of loss allowances provided for the Company's impairment on receivable accounts and account age analysis on loans, please see Note 6(3).

(c) Liquidity risk

Ⓐ The liquidity risk arises when the Company fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Company managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable loss or impairment on the Company's goodwill.

Ⓑ The Company will call the management meeting periodically to assist Financial Accounting Dept. Control the need for cash flow and the optimal investment return in cash. Generally, the Company will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Company's loan totaled NT$2,592,672 thousand on December 31, 2019.

Ⓒ The following table refers to the non-derivative financial liabilities to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Company did not hold derivative financial liabilities.

| | **December 31, 2019** | | | |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | **Within 1 year** | **1~2 years** | **More than 2 years** | **Total** |
| Short-term loan | $ 500,000 | $ - | $ - | $ 500,000 |
| Payable accounts (including related party) | 348,008 | - | - | 348,008 |
| Other payable accounts (including related party) | 725,627 | - | - | 725,627 |
| Lease liabilities | 45,256 | 46,372 | - | 91,628 |
| Corporate bond payable | - | - | 902,485 | 902,485 |
| Long-term loan (including the current portion) | - | - | 142,208 | 142,208 |
| Total | $1,618,891 | $ 46,372 | $1,044,693 | $2,709,956 |

| | **December 31, 2018** | | | |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | **Within 1 year** | **1~2 years** | **More than 2 years** | **Total** |
| Short-term loan | $ 818,000 | $ - | $ - | $ 818,000 |
| Payable accounts (including related party) | 460,079 | - | - | 460,079 |
| Other payable accounts (including related party) | 747,270 | - | - | 747,270 |
| Corporate bond payable | - | - | 892,843 | 892,843 |
| Long-term loan (including the current portion) | 29,233 | 29,233 | 9,997 | 68,463 |
| Total | $2,054,582 | $ 29,233 | $ 902,840 | $2,986,655 |

(3)Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Ⓐ Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Amarket is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Ⓑ Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in corporate bonds is included in Level 2.

Ⓒ Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

Ⓐ Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, Pledged Deposit, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | | Fair value | | |
| | Book value | Level 1 | Level 2 | Level 3 |
| Financial assets | – | – | – | – |
| Financial liabilities | | | | |
| Bonds payable (including current portion) | $ 902,485 | – | $ 902,485 | – |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | | Fair value | | |
| | Book value | Level 1 | Level 2 | Level3 |
| Financial assets | – | – | – | – |
| Financial liabilities | | | | |
| Bonds payable (including current portion) | $ 894,843 | – | $ 892,843 | – |

Ⓑ The methods and assumptions of fair value estimate are as follows:

Corporate bond payable: The cash flow expected to be paid is measured by the present value discounted of the market interest rate on the balance sheet date.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

Ⓐ The Company measured at fair value by level on the basis of the assets and liabilities:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | | Fair value | | |
| | Book value | **Level** 1 | **Level** 2 | **Level** 3 |
| **Assets** | | | | |
| Recurring fair value measurements | – | – | – | – |
| Non-recurring fair value measurements | – | – | – | – |
| **Liabilities** | | | | |
| Recurring fair value measurements | | | | |
| Financial liabilities at fair value through profit or loss－non-current convertible bonds option | $ 384 | – | $ 384 | – |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | | Fair value | | |
| | Book value | Level 1 | **Level** 2 | **Level** 3 |
| **Assets** | | | | |
| Recurring fair value measurements | – | – | – | – |
| Non-recurring fair value measurements | – | – | – | – |
| **Liabilities** | | | | |
| Recurring fair value measurements | – | – | – | – |
| Financial liabilities at fair value through profit or loss－non-current convertible bonds option | $ 9,266 | – | $ 9,266 | – |

Ⓑ The methods and assumptions of fair value estimate are as follows:

Convertible bonds option

Valuation techniques and inputs applied for Level 2 fair value measurement

| Financial instruments | Instruments and inputs |
|---|---|
| Convertible bonds option | Binomial tree valuation model：<br>Evaluated by the observable of duration, conversion price, volatility, risk-free interest rate, risk discount rate, and liquidity risk at the balance sheet date. |

D. There were no transfer between **Level** 1 and **Level** 2 for the year ended December 31, 2019 and 2018.

## 13. Disclosures of Notes

(1) Information about important transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Company shall also disclose the information about important transactions:

| No. | Contents | 2019 |
|---|---|---|
| 1 | Loans to others: | None |
| 2 | Endorsement/guarantees made for others: | None |
| 3 | Marketable securities-ending | None |
| 4 | Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital in the current period. | None |
| 5 | Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital. | None |
| 6 | Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital. | None |
| 7 | Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital. | Attached table 1 |
| 8 | Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital. | Attached table 2 |
| 9 | Transactions of derivative instruments. | None |
| 10 | Business relationship and important transactions between parent company and subsidiaries. | Not be disclosed in parent company financial statement |

Attached table 1: Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital

| Seller/ buyer | Trading counterpart | Relationship | Status | | | | Distinctive terms and conditions of trade and the reasons | | Accounts/notes receivable (payable) | | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase (sale) | Amount | Percentage in total purchase (sale) amount | Extension of loan Duration | Unit price | Duration of loan | Balance | Percentage in total accounts/notes receivable (payable) | |
| The Company | MPI AMERICA INC. | The Company's subsidiaries | Sale | $ 418,689 | 9 % | same as that applicable to the general customer | — | — | Receivable accounts $ 232,124 | 16% | |
| The Company | MPS | The Company's subsidiaries | Sale | $ 209,987 | 4% | same as that applicable to the general customer | — | — | Receivable accounts $ 208,057 | 15% | |

Attached Table 2: Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital

| Name of company stated into receivable accounts | Trading counterpart | Relationship | Balance of receivable accounts-related parties | Turnover rate | Overdue receivable accounts-related parties | | Subsequent recovered amount of receivable accounts-related parties | Allowance for bad debt |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Treatment | | |
| MPI Corporation | MPI AMERICA INC. | The Company's subsidiaries | Receivable accounts $ 232,124 | 1.9830 | — | — | $ 59,476 | — |
| MPI Corporation | MPS | The Company's subsidiaries | Receivable accounts $ 208,057 | 1.6832 | — | — | $ 11,967 | — |

(2) <u>Information about investees</u>

The information about name, territory, business lines, original investment amount, shares held at ending, income and investment income recognized in the current period of the investees in which the Company may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) in 2019 is stated as follows:

| Investor | Investee | Territory | Business lines | Original investment amount | | Held at ending | | | Investee income recognized in current period (Note 1) | Investment income recognized in the current period (Note 2) (Note 3) | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | End of the period | End of last year | Quantity | Ratio | Book value | | | |
| MPI Corporation | MPI TRADING CORP. | Offshore Chambers, P.O.BOX 217, APIA,SAMOA | Trading of probe cards and semi-automatic probers | $ 32 | $ 32 | 1,000 | 100% | $ 60,858 | $ (420) | $ (420) | Subsidiary of MPI Corporation |
| MPI Corporation | MMI HOLDING CO.,LTD. | Offshore Chambers, P.O.BOX 217, APIA,SAMOA | Holding company | $ 573,502 | $ 573,502 | 18,267,987 (Note4) | 100% | $ 490,841 | $ (27,590) | $ (28,060) | Subsidiary of MPI Corporation |
| MPI Corporation | MEGTAS CO.,LTD. | 134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-811, Korea | Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts | $ 53,767 | $ 53,767 | 400,000 | 80% (Note5) | $ 36,504 | $ (1,930) | $ (1,509) | Subsidiary of MPI Corporation |
| MPI Corporation | Chain-Logic International Corp. | 3F, No. 153, Zhonghe Street, Zhubei City, Hsinchu County | Professional agent of semi-conductor | $ 50,000 | $ 50,000 | 5,000,000 | 100% | $ 212,867 | $ 30,506 | $ 32,462 | Subsidiary of MPI Corporation |
| MPI Corporation | Allstron Corporation | No. 8, Lane 98, Jiaren Street, Neighborhood 36, Xinan Vil., Zhubei City, Hsinchu County | High-frequency wafer measurement probe card manufacturer | $ 50,000 | $ 50,000 | 1,550,000 | 100% | $ 1,578 | $ (66) | $ (66) | Subsidiary of MPI Corporation |
| MPI Corporation | MPA TRADING CORP. | Vistra (Anguilla) Limited, Vistra Corporate Services Centre, Albert Lake Drive, The Valley, Anguilla, British West Indies. | Holding company | $ 37,881 | $ 37,881 | 1,250,000 | 100% | $ (118,988) | $ (60,401) | $ (60,401) | Subsidiary of MPI Corporation |
| Chain-Logic International Corp. | CHAIN-LOGIC TRADING CORP. | Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365,307 St James Court, St Denis Street, Port Louis, Republic of Mauritius. | Primarily engaged in international trading | $ 12,687 (Note 6) | $ 46,921 | 300,100 | 100% | $ 17,041 | $ 99 | – | Subsidiary of Chain-Logic International Corp. |
| MPI Corporation | MPI America Inc | 2360 QUME DRIVE,SUITE C,SAN JOSE,CA | Trading of probe cards and semi-automatic probers | $ 36,366 | $ 36,366 | 1,200,000 | 100% | $ (115,520) | $ (60,344) | – | Subsidiary of MPA TRADING CORP. |

Note 1: Except MEGTAS CO., LTD. and MPI AMERICA INC., which were audited by other external auditors commissioned by it instead of the Company's external auditors. The others were audited by CPA of the parent company.

Note 2: The investment income recognized in the current period includes the investment income recognized under equity method and realized (unrealized) gain recognized from upstream/side stream transactions.

Note 3: The subsidiaries' income recognized in the current period includes the investment income to be recognized for their re-investment pursuant to the requirements.

Note 4: The Company's subsidiary, MMI HOLDING CO., LTD., reducing the cash capital US$2,857,000(equivalent to NT$84,006 thousand) in April 2018 and reducing the cash capital US$936,870 (equivalent to NT$28,669 thousand) in September 2018. So far, the Company has invested a total of US$18,267,987 in the subsidiary, MMI HOLDING CO., LTD., totaling 18,267,987 shares, at the par value of US$1 per share. The Company's shareholding was 100%.

Note 5: In order to coordinate the corporation's operating program and promote the efficiency of capital usage, the Company has reported to the board of directors to takeover 20% of equity on MEGTAS CO., LTD. in₩ 5,000 per share on November 8, 2018. The total investment cost is 13,861 thousand and the date of the takeover is on October 5, 2018. Besides the company will takeover 100,000 shares, and the shareholding ratio will increase from 60% to 80%. The difference between consideration paid and carrying amount of subsidiaries acquired was NT$4,576 thousand.

Note 6: The Company's subsidiary, CHAIN-LOGIC TRADING CORP., reducing the cash capital US$1,100,000(equivalent to NT$34,234 thousand) in July 2019. So far, the Company has invested a total of US$300,100 in the subsidiary, CHAIN-LOGIC TRADING CORP., totaling 300,100 shares, at the par value of US$1 per share. The Company's shareholding was 100%.

(3) Information related to investments in China

A. Information related to investments in the territories of Mainland China

| Name of Chinese investee | Business lines | Paid-in capital | Mode of investment | Accumulated investment balance, beginning | Amount remitted or recovered in the current period | | Accumulated investment balance, ending | Investee income recognized in current period | Direct and indirect shareholding of the Company | Investment income recognized in the current period (Note 3) | Book value, ending | Accumulated investment income received until the end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | outflow | inflow | | | | | | |
| CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | Primarily engaged in international trading | — (Note 4) (Note 5) | (Note 1) | USD 1,400,000 ($ 46,917) | — | USD 1,100,000 ($ 34,234) | USD 300,000 ($12,683) | $ (4,010) | 100 % | $ (4,010) | — | $15,852 |
| Lumitek (Changzhou) Co. Ltd. | R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts. | USD 16,000,000 ($ 502,470) | (Note 2) | USD 16,000,000 ($ 502,470) | — | — | USD 16,000,000 ($ 502,470) | $ (3,635) | 100 % | $ (3,635) | $ 488,433 | — |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MPI (Suzhou) Corporation | R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts. | USD 2,000,000 ($60,180)<br>Registered capital<br>USD 3,000,000 ($ 90,270) | (Note 2) | USD 2,000,000 ($60,180) | － | － | USD 2,000,000 ($60,180) | $ (23,681) | 100 % | $ (23,681) | $ 32,613 | － |

Note 1: Reinvest the company in Mainland China via the offshore subsidiary, CHAIN-LOGIC TRADING CORP.

Note 2: Reinvest the company in Mainland China via the offshore subsidiary, MMI HOLDING CO., LTD.

Note 3: The recognition of investment income was on the basis of the financial statement audited by CPA of the parent company.

Note 4: Our company present a discussion to the board of directors that they decide to adopt a resolution about the reduction of capital RMB 7,583,950(USD 1,100,000), the amount of paid-in capital should amend to USD 300,000, the payment will be transferred to CHAIN-LOGIC TRADING CORP. account at June 28, 2019. The Investment been approved by Commission on MOEA put on record.

Note5: The shareholders' meeting passed the liquidation of CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. on September 23, 2019. The company was written off on November 11, 2019, and remitted the surplus investment of US$428,835.20 (equivalent to NT$12,683 thousand). The Investment been approved by Commission on MOEA put on record in February 27, 2020.

B. Information related to ceiling on investment in Mainland China

| Accumulated amount of remittance from Taiwan to Mainland China at the end of period | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs | Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (Note) |
|---|---|---|
| USD 18,300,000<br>(NTD 575,333) | USD 19,710,272.42<br>(NTD 620,418) | NTD 2,627,907 |

Note1: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

Note2：Investment amount approved by the Investment

(a) Investment amount approved by the Investment LEDA-ONE (Shenzhen) Co. was liquidated and Written off in May 2017 and remitted the surplus investment US$155,857.58 (equivalent to NT$4,677 thousand) to offset the investment amount approved by the MOEA. The original investment amount at US$1,800,000(equivalent to NT$54,111 thousand) is still in total of US$1,644,142.42(equivalent to NT$49,434 thousand) that could not be offset the investment amount.

(b) MJC Microelectronics(Kunshan) Co., Ltd. was transferred to Japanese MJC Corporation in March, 2018, and the transfer amount of US$2,857,000 (equivalent to NT$84,006 thousand) was used to deduct the mainland investment quota in April, 2018.

(c) MJC Microelectronics (Shanghai) Co., Ltd. was liquidated in August, 2018, and in September, 2018, the liquidation amount of US$936,870 (equivalent to NT$28,669 thousand) was used to deduct the accumulated amount of investment in Mainland China.

(d) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the reduction of cash capital US$ 1,100,000 (equivalent to NT$34,234 thousand) by the Board of Directors meeting. The amount of cash capital reduction has remitted to Chain-Logic International Corp. in July, 2019 and was used to deduct the accumulated amount of investment in Mainland China.

C. Important transactions:

For the important transactions of the Company with the investees in Mainland China, direct or indirect, in 2019 (which have been eliminated when preparing the consolidated financial statements), please see the “Information related to the investees” and “Major business dealings and transactions between the parent company and its subsidiaries” referred to in Note 13 to the consolidated financial statements.

## 14. Information by department

Please see the consolidated financial statements 2019.

## DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,
MPI CORPORATION
By

____________________________
Chairman
March 26, 2020

# Independent Auditor's Audit Report

**The Board of Directors and Shareholders**

**MPI Corporation**

## Opinion

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

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

## Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

Key audit matters on the consolidated financial statements for the year ended December 31, 2019 were as follows:

**I. Revenue Recognition**

Matter Description

Regarding the accounting policy of revenue recognition, please refer to (27) of Note 4 of the Consolidated Financial Statements.

Sales revenue is the major index for investors and the management to evaluate the finance or performance of MPI Group. As the point in time for revenue recognition and the amount of recognized revenue can make a big difference on the financial statements, the CPA(s) has also reviewed the accuracy of these two key factors during the audit.

Audit Procedures in Response

The CPA(s) has implemented audit procedures in response as summarized below:

(1) Understood and tested the design and implementation efficiency of sales and receiving circulation control system.

(2) Understood the major revenue type and trading terms of MPI Group to assess if the accounting policy of point in time for revenue recognition is appropriate.

(3) Understood the product type and sales of the top 10 customers; sampled and reviewed the orders; assessed the influence of trading terms to revenue recognition; and confirmed if MPI Group has handled accounting relevant activities appropriately.

(4) Evaluated if the number of days for turning over the sales revenue and payables; and analyzed changes to customers of this and last year at the same time point to see if there is any abnormality.

(5) Implemented the detail test, where transactions of sales revenue before and after the financial statements within a specified period have been sampled to carry out the cut-off test and verify relevant certificates. Changes to the inventory in account books and transferred sales costs have

been recorded during an appropriate period of period to evaluate the correctness of the period of recognizing the revenue, ensure if there is any abnormal revenue journal voucher, and understand if there is any grave refund or return after the period.

## 2. Inventory Valuation

Matter Description

Regarding the accounting policy of inventory valuation, please refer to (16) of Note 4 of Consolidated Financial Statements. Regarding significant accounting judgments, estimations, and assumptions of inventory valuation, please refer to Note 5 of Individual Financial Statements. Regarding descriptions of inventory accounting items, please refer to (4) of Note 6 of Individual Financial Statements. The Group recognize inventories amounting to NT$2,565,293 thousand and Allowance for inventories amounting to NT$310,777 thousand. The book value of the Group's inventories as December 31, 2019 was NT$2,254,516 thousand and accounted 28% of the total assets in the consolidated balance sheet.

MPI Group mainly engages in the manufacturing and sales of semiconductor production and testing equipment. Due to rapid technological changes, short life cycle and intense market competition of electronic products, there is a high tendency for inventory valuation loss and losses caused by outdated inventory. The inventory is evaluated by either the cost or net realizable value, depending on which one has the lower value. Inventories that exceed specific inventory age or are evaluated as outdated during individual assessment shall have the inventory loss evaluation conducted also based on the inventory age and future product demand during specific period of time. The information comes from the management’s judgment on each product’s net realizable value based on the inventory sales, age and quality conditions. As the amount of MPI Corporation’s inventory is great; a number of items are included on the inventory list; and the valuation of inventories that have exceeded specific age or are outdated relies heavily on the management’s subjective judgement and involves a high degree of uncertainty, the Account(s) believes that the inventory valuation and obsolescence loss is one of the key audit matters of the year.

Audit Procedures in Response

The CPA(s) has implemented the audit procedures in response as summarized below:

(1) With the CPA’s knowledge of the industry and MPI Group’s operations, evaluated the soundness of the Corporation’s policies concerning the allowance for inventory valuation loss and doubtful debts.

(2) Understood MPI Group's inventory management procedures, reviewed it's annul inventory plan, and participated in its annual inventory check to evaluate the management's judgement and control efficiency of outdated inventories.

(3) Acquired the list of product inventory age, verified the appropriateness of reporting system logic, and confirmed the consistency of report information and adopted policies.

(4) Evaluated the appropriateness of the methods of calculating inventory valuation impairment, including deciding the inventory classification based on the net realizable value, checking individual material number to verify the basic assumption of the calculation in relevant supporting document, and verify the accuracy of calculation.

## Other Matter-Making Reference to the Audits of Component Auditors

Information on the subsidiaries of MPI Corporation included the aforementioned statements covering the period of 2019 and 2018. And the information on direct investment as disclosed in note 13 is valuated as audited by other public accountants. Said subsidiaries' total assets of are NT$195,154 thousand and NT$191,134 thousand or accounted for 2.39% and 2.33% of the consolidated total assets as of December 31, 2019 and 2018, respectively. As of January 1 to December 31, 2019 and 2018, had net operating revenue amounted to NT$558,969 thousand and NT$556,498 thousand, or accounted for 10.14% and 10.33% of the consolidated net operating revenue, respectively.

## Other Matter

We have also audited the parent Group only financial statements of MPI CORPORATION as of and for the years ended December 31, 2019 and 2018 on which we have issued an unqualified opinion.

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

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

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

Those charged with governance, including supervisors, are responsible for overseeing the Group’s financial reporting process.

## Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

NEXIA Sun Rise CPAs & Company
Taipei, Taiwan, Republic of China

March 26, 2020

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

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

**MPI CORPORATION AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (ASSETS)

DECEMBER 31 ,2019 AND 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| | | December 31,2019 | | | December 31,2018 | | |
|---|---|---|---|---|---|---|---|
| ASSETS | Note | | Amounts | % | | Amounts | % |
| CURRENT LIABILITIES | | | | | | | |
| Cash and cash equivalents | 6(1) | $ | 1,103,311 | 14 | $ | 1,110,694 | 14 |
| Current financial assets at amortised cost | 6(2) | | - | - | | 49,313 | 1 |
| Notes receivable, net | 6(3) | | 96,074 | 1 | | 100,753 | 1 |
| Accounts receivable, net | 6(3) | | 1,234,092 | 15 | | 945,429 | 12 |
| Other receivables | | | 2,465 | - | | 6,038 | - |
| Income tax receivable | | | 1 | - | | 676 | - |
| Inventories, net | 6(4) | | 2,254,516 | 28 | | 2,555,052 | 31 |
| Prepayments | | | 103,511 | 1 | | 110,690 | 1 |
| Other current assets | 8 | | 21,959 | - | | 10,548 | - |
| Total Current Assets | | | 4,815,929 | 59 | | 4,889,193 | 60 |
| NONCURRENT ASSETS | | | | | | | |
| Investments accounted for using equity method | 6(5) | | - | - | | - | - |
| Property, plant and equipment | 6(6).7.8 | | 2,933,943 | 36 | | 3,030,643 | 37 |
| Right-of-use assets | 6(7) | | 146,710 | 2 | | - | - |
| Intangible assets | 6(8) | | 34,803 | - | | 41,575 | - |
| Deferred income tax assets | 6(19) | | 124,291 | 2 | | 93,708 | 1 |
| Other noncurrent assets | 6(9) | | 123,225 | 1 | | 135,079 | 2 |
| Total Noncurrent Assets | | | 3,362,972 | 41 | | 3,301,005 | 40 |
| TOTAL ASSETS | | $ | 8,178,901 | 100 | $ | 8,190,198 | 100 |

(The accompanying notes are an integral part of these consolidated financial statements)

**MPI CORPORATION AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (LIABILITIES AND EQUITY)

DECEMBER 31 ,2019 AND 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| | | December 31,2019 | | December 31,2018 | |
|---|---|---|---|---|---|
| LIABILITIES AND EQUITY | Note | Amounts | % | Amounts | % |
| CURRENT LIABILITIES | | | | | |
| Short-term loans | 6(10) | $ 500,000 | 6 | $ 818,000 | 10 |
| Contract liabilities－current | 6(17).7 | 811,231 | 10 | 940,903 | 12 |
| Notes payable | | 12,789 | - | 6,097 | - |
| Accounts payable | | 379,978 | 4 | 478,605 | 6 |
| Payables on equipment | | 65,720 | 1 | 22,722 | - |
| Other payables | 6(11) | 708,834 | 9 | 679,283 | 8 |
| Income tax payable | | 56,972 | 1 | 49,516 | 1 |
| Provisions | 6(12) | 6,572 | - | 4,859 | - |
| Lease liabilities－current | 6(7) | 84,235 | 1 | - | - |
| Current portion of long-term liabilities | 6(14) | - | - | 29,233 | - |
| Lease obligations payable－current | 6(6) | - | - | 15,883 | - |
| Other current liabilities | | 20,019 | - | 13,926 | - |
| Total Current Liabilities | | 2,646,350 | 32 | 3,059,027 | 37 |
| NONCURRENT LIABILITIES | | | | | |
| Non-current Financial liabilities at Fair Value through Profit or Loss | 6(13) | 384 | - | 9,266 | - |
| Bonds payable | 6(13) | 902,485 | 11 | 892,843 | 11 |
| Long-term loans | 6(14) | 142,208 | 2 | 39,230 | 1 |
| Deferred income tax liabilities | 6(19) | 7,012 | - | 14,166 | - |
| Lease liabilities－noncurrent | 6(7) | 67,752 | 1 | - | - |
| Lease obligations payable－noncurrent | 6(6) | - | - | 15,883 | - |
| Accrued pension cost | 6(15) | 32,768 | - | 42,527 | 1 |
| Other noncurrent liabilities | | 97 | - | 325 | - |
| Total Other Liabilities | | 1,152,706 | 14 | 1,014,240 | 13 |
| TOTAL LIABILITIES | | 3,799,056 | 46 | 4,073,267 | 50 |
| EQUITY | 6(16) | | | | |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | |
| Capital common stock | | 799,587 | 10 | 799,014 | 10 |
| Capital surplus | | 980,325 | 12 | 977,255 | 12 |
| Retained earnings | | | | | |
| Appropriated as legal capital reserve | | 596,549 | 7 | 563,093 | 7 |
| Special reserve | | 54,229 | 1 | 42,308 | - |
| Unappropriated earnings | | 2,008,491 | 25 | 1,779,401 | 22 |
| Total Retained Earnings | | 2,659,269 | 33 | 2,384,802 | 29 |
| Other | | | | | |
| Foreign currency translation adjustments | | (68,477) | (1) | (54,230) | (1) |
| Total others | | (68,477) | (1) | (54,230) | (1) |
| Equity attributable to shareholders of the parent | | 4,370,704 | 54 | 4,106,841 | 50 |
| NONCONTROLLING INTERESTS | | 9,141 | - | 10,090 | - |
| TOTAL EQUITY | | 4,379,845 | 54 | 4,116,931 | 50 |
| TOTAL LIABILITIES AND EQUITY | | $ 8,178,901 | 100 | $ 8,190,198 | 100 |

(The accompanying notes are an integral part of these consolidated financial statements)

**MPI CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

From January 1 to December 31, 2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Note | January 1 ~ December 31,2019 Amounts | % | January 1 ~ December 31,2018 Amounts | % |
|---|---|---|---|---|---|
| OPERATING REVENUE, NET | 6(17).7 | | | | |
| Sales revenue | | $ 5,288,166 | 96 | $ 5,037,372 | 93 |
| Less: sales returns | | (11,058) | - | (10,401) | - |
| sales discounts and allowances | | (9,454) | - | (12,428) | - |
| Lease revenue | | 2,209 | - | - | - |
| Commission revenue | | 3,443 | - | 52,576 | 1 |
| Processing Fees revenue | | 241,894 | 4 | 319,237 | 6 |
| Operating Revenue, net | | 5,515,200 | 100 | 5,386,356 | 100 |
| OPERATING COSTS | 6(4).7 | (3,286,299) | (59) | (3,246,105) | (60) |
| GROSS PROFIT | | 2,228,901 | 41 | 2,140,251 | 40 |
| OPERATING EXPENSES | 7 | | | | |
| Selling expenses | | (651,494) | (12) | (609,772) | (11) |
| General & administrative expenses | | (377,801) | (7) | (322,447) | (6) |
| Research and development expenses | 6(8) | (710,627) | (13) | (885,934) | (17) |
| Expected Credit (loss) gains | 6(3) | (11,731) | - | 1,184 | - |
| Operating expense, net | | (1,751,653) | (32) | (1,816,969) | (34) |
| OPERATING INCOME | | 477,248 | 9 | 323,282 | 6 |
| NON-OPERATING INCOME AND EXPENSES | | | | | |
| Other gains and losses | 6(18) | (6,231) | - | 63,486 | 1 |
| Finance costs | 6(18) | (25,174) | - | (23,493) | - |
| Share of profits of subsidiaries and associates | 6(5) | - | - | 151 | - |
| Interest income | | 5,684 | - | 2,844 | - |
| Rent income | 6(7) | 10,460 | - | 2,813 | - |
| Other non-operating revenue-other items | | 27,044 | - | 28,535 | - |
| Total Non-operating Income | | 11,783 | - | 74,336 | 1 |
| INCOME BEFORE INCOME TAX | | 489,031 | 9 | 397,618 | 7 |
| INCOME TAX BENEFIT(EXPENSE) | 6(19) | (61,047) | (1) | (59,990) | (1) |
| NET INCOME | | 427,984 | 8 | 337,628 | 6 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | | |
| Items that are not to be reclassified to profit or loss | | | | | |
| Re-measurements from defined benefit plans | | 5,900 | - | (7,303) | - |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences arising on translation of foreign operations | | (14,810) | - | (12,534) | - |
| Other comprehensive income for the year, net of income tax | | (8,910) | - | (19,837) | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | $ 419,074 | 8 | $ 317,791 | 6 |
| NET INCOME(LOSS) ATTRIBUTABLE TO： | | | | | |
| Shareholers of the parent | | $ 428,370 | 8 | $ 334,562 | 6 |
| Noncontrolling interests | | (386) | - | 3,066 | - |
| | | $ 427,984 | 8 | $ 337,628 | 6 |
| TOTAL COMPREHENSIVE INCOME(LOSS) | | | | | |
| Shareholers of the parent | | $ 420,023 | 8 | $ 315,339 | 6 |
| Noncontrolling interests | | (949) | - | 2,452 | - |
| | | $ 419,074 | 8 | $ 317,791 | 6 |
| | | After-tax | | After-tax | |
| EARNINGS PER COMMON SHARE(NTD) | 6(20) | | | | |
| Basic earnings per share | | $ 5.36 | | $ 4.19 | |
| Diluted earnings per share | | $ 4.54 | | $ 3.56 | |

(The accompanying notes are an integral part of these consolidated financial statements)

## MPI CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

From January 1 to December 31, 2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Capital | | Retained Earnings | | | Others | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Legal Capital Reserve | Special Capital Reserve | Unappropriated Earnings | Foreign Currency Translation Reserve | Total | Non-controlling | Total Equity |
| BALANCE,JANUARY,1,2018 | $ 799,014 | $ 909,204 | $ 548,516 | $ 30,177 | $ 1,523,376 | $ (42,309) | $ 3,767,978 | $ 16,923 | $ 3,784,901 |
| Legal capital reserve | | | 14,577 | | (14,577) | | - | | - |
| Special capital reserve | | | | 12,131 | (12,131) | | | | - |
| Cash dividends of common stock | | | | | (39,951) | | (39,951) | | (39,951) |
| Capital reserve from stock warrants | | 67,683 | | | | | 67,683 | | 67,683 |
| Other changes in capital surplus | | 368 | | | | | 368 | | 368 |
| Net Income in 2018 | | | | | 334,562 | | 334,562 | 3,066 | 337,628 |
| Other comprehensive income in 2018, net of income tax | | | | | (7,302) | (11,921) | (19,223) | (614) | (19,837) |
| Total comprehensive income in 2018 | - | - | - | - | 327,260 | (11,921) | 315,339 | 2,452 | 317,791 |
| Difference between consideration paid and carrying amount of subsidiaries acquired | | | | | (4,576) | | (4,576) | | (4,576) |
| Changes in percentage of ownership interest in subsidiaries | | | | | | | | (9,285) | (9,285) |
| BALANCE,DECEMBER,31,2018 | $ 799,014 | $ 977,255 | $ 563,093 | $ 42,308 | $ 1,779,401 | $ (54,230) | $ 4,106,841 | $ 10,090 | $ 4,116,931 |
| BALANCE,JANUARY,1,2019 | $ 799,014 | $ 977,255 | $ 536,093 | $ 42,308 | $ 1,779,401 | $ (54,230) | $ 4,106,841 | $ 10,090 | $ 4,116,931 |
| Legal capital reserve | | | 33,456 | | (33,456) | | - | | - |
| Special capital reserve | | | | 11,921 | (11,921) | | - | | - |
| Cash dividends of common stock | | | | | (159,803) | | (159,803) | | (159,803) |
| Capital reserve from stock warrants | | 3,465 | | | | | 3,465 | | 3,465 |
| Other changes in capital surplus | | (395) | | | | | (395) | - | (395) |
| Net Income in 2019 | | | | | 428,370 | | 428,370 | (386) | 427,984 |
| Other comprehensive income in 2019, net of income tax | | | | | 5,900 | (14,247) | (8,347) | (563) | (8,910) |
| Total comprehensive income in 2019 | - | - | - | - | 434,270 | (14,247) | 420,023 | (949) | 419,074 |
| Convertible Bonds Transferred To Common Stock | 573 | | | | | | $ 573 | | 573 |
| BALANCE,DECEMBER,31,2019 | $ 799,587 | $ 980,325 | $ 569,549 | $ 54,229 | $ 2,008,491 | $ (68,477) | $ 4,370,704 | $ 9,141 | $ 4,379,845 |

(The accompanying notes are an integral part of these consolidated financial statements)

**MPI CORPORATION AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS
From January 1 to December 31, 2019 and 2018
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Jan 1 ~ Dec 31,2019 | Jan 1 ~ Dec 31,2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 489,031 | $ 397,618 |
| Adjustments to reconcile net income to net | | |
| Depreciation | 520,909 | 476,374 |
| Amortization | 63,312 | 65,911 |
| Expected credit loss(gain) | 11,731 | 1,184 |
| Gains on Financial Assets (Liabilities) at Fair Value through Profit or Loss | (8,867) | 3,200 |
| Interest expense | 25,174 | 23,493 |
| Interest revenue | (5,684) | (2,844) |
| Loss (gain) on equity-method investments | - | (151) |
| (Gain) loss on disposal of property, plant and equipment | (1,895) | (30,664) |
| Loss (gain) on disposal of equity-method investments | - | (10,941) |
| (Gain) on repurchase of convertible bonds | (82) | (1,564) |
| Adjustments-(Gain) loss on depreciation of assets leased to others | 2,490 | - |
| Adjustments-exchange (Gain) loss on prepayments for equipment | 504 | (334) |
| Adjustments-(Gain) loss on lease modification | (20) | - |
| Net changes in operating assets and liabilities | | |
| Net changes in operating assets | | |
| Decrease (Increase) in notes receivable | 4,678 | (93,757) |
| Decrease (Increase) in accounts receivable | (300,361) | 1,107 |
| Decrease (Increase) in accounts receivable-related parties | - | 758 |
| Decrease (Increase) in other receivables | 3,567 | 3,271 |
| Decrease (Increase) in inventories | 300,536 | (280,583) |
| Decrease (Increase) in prepayments | 7,179 | (16,589) |
| Decrease (Increase) in other current assets | (1,074) | 344 |
| Net changes in operating liabilities | | |
| (Decrease) Increase in contract liabilities | (129,672) | 143,612 |
| (Decrease) Increase in notes payable | 6,692 | 6,097 |
| (Decrease) Increase in accounts payable | (98,628) | 63,686 |
| (Decrease) Increase in accounts payable-related parties | - | (3,673) |
| (Decrease) Increase in other accounts payable | 29,742 | 183,002 |
| (Decrease) Increase in other accounts payable-related parties | - | (4,875) |
| (Decrease) Increase in provision of liabilities | 1,713 | 1,649 |
| (Decrease) Increase in other current liabilities | 6,093 | (22,843) |
| Decrease(Increase) in accrued pension cost | (3,858) | (33) |
| Cash generated from operations | 923,210 | 902,455 |
| Interest received | 5,691 | 2,838 |
| Cash dividends received | - | 861 |
| Interest (excluding capitalization of interest) | (6,439) | (17,922) |
| Cash dividends | (159,803) | (39,951) |
| Income taxes paid | (90,654) | (41,854) |
| Net cash Provided By Operating Activities | 672,005 | 806,427 |

(Continue)

**MPI CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

From January 1 to December 31, 2019 and 2018

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

| Items | Jan 1 ~ Dec 31,2019 | Jan 1 ~ Dec 31,2018 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Financial asset measured at amortised cost | (44,565) | (49,313) |
| Repayment of financial asset measured at amortised cost | 93,718 | - |
| Proceeds from disposal of equity-method investments | - | 111,442 |
| Proceeds from disposal of financial assets measured at cost | (328,795) | (318,359) |
| Proceeds from sale of property, plant and equipment | 8,666 | 47,666 |
| Intangible assets | (25,592) | (25,996) |
| Increase in other financial assets | (10,337) | (6,130) |
| Increase in other non-current assets | (19,235) | - |
| Decrease in other non-current assets | - | 25,952 |
| Net Cash Provided Used In Investing Activities | (326,140) | (214,738) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in short-term loans | (318,000) | (352,000) |
| Issuance of corporate bonds | - | 995,618 |
| Repurchase of convertible bonds | (1,802) | (33,030) |
| Increase in long-term loans | 73,745 | - |
| Repayments of long-term loans | - | (730,233) |
| Repayments of lease principal | (94,153) | - |
| Increase in other non-current liabilities | - | 119 |
| Decrease in other non-current liabilities | (229) | - |
| Payment of partial acquisition of interests in subsidiaries | - | (13,861) |
| Increase (decrease) in noncontrolling interests | (563) | (614) |
| Net cash (Used In) Financing Activities | (341,002) | (134,001) |
| Effects of exchange rate change on cash | (12,246) | (3,823) |
| Net increase in cash and cash equivalents | (7,383) | 453,865 |
| Cash and cash equivalents at beginning of year | 1,110,694 | 656,829 |
| Cash and cash equivalents at end of year | $ 1,103,311 | $ 1,110,694 |

(The accompanying notes are an integral part of these consolidated financial statements)

## MPI CORPORATION and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in NT$1,000, Unless Otherwise Noted)

### 1. Company profile

(1) MPI Corporation (hereinafter referred to as the "Company") was founded according to the Company Law and other related laws on July 25, 1995. Upon capital increase for several times, the Company's paid-in capital has been NT$799,587 thousand and outstanding stock has been 79,958,726 shares until December 31, 2019. Upon resolution of the general shareholders' meeting on June 12, 2018, the Company raised the authorized capital as NT$1,200,000,000, divided into 120,000,000 shares at par value of NT$10 per share. The board of directors is authorized to issue the stock in lots. NT$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.

(2) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.

(3) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

### 2. Date and procedure for ratification of financial report

The consolidated financial statements have been approved and released by the Board of Directors on March 26, 2020.

### 3. Application of new standards, amendments and interpretations

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRSs") as endorsed by Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2019 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9, 'Prepayment features with negative compensation' | January 1, 2019 |

| | |
|---|---|
| IFRS 16, ‘Leases’ | 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 |
| IFRIC 23, ‘Uncertainty over income tax treatments’ | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except as described below, the above standards and interpretations have no significant impact to the Group’s financial condition and operating result based on the Group’s assessment.

IFRS 16, ‘Leases’

A. IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use asset’ by NT$134,961 thousand, increased ‘lease liability’ by NT$134,961 thousand. The accumulated effect of the initial application did not affect the retained earnings on January 1, 2019.

C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(1) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(2) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.42% to 4.5%.

E. The Group recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. The amount of aforementioned present values is the same as the amount of lease liabilities recognized on January 1, 2019.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

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

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material' | January 1, 2020 |
| Amendments to IFRS 3, 'Definition of a business' | January 1, 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform' | January 1, 2020 |

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included IFRSs as endorsed by the FSC:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting Standards Board |
| IFRS 17, 'Insurance contracts' | January 1, 2021 |
| Amendments to IAS 1, 'Classification of liabilities as current or non-current' | January 1, 2022 |

The above standards and interpretations are continually evaluated of impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

## 4. Summary of Significant Accounting Policies

The important accounting policies applied by the financial statements are summarized as follows: Unless otherwise provided, the following accounting policies have been applied during the presentation period of the consolidated financial statements.

(1) Statement of compliance

The consolidated financial statements were prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereinafter referred to as the "Regulations") and IFRSs recognized by FSC to disclose all of the necessary to be disclosed in the annual consolidated financial statements.

(2) Basis for preparation

A. Basis for measurement

Except the following important items in the balance sheet, the consolidated financial statement was prepared based on the historical cost:

(1) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(2) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(3) Defined benefit liability stated based on the net after pension fund assets less the present value of defined benefit obligations.

B. Functional currency and presentation of currency

The functional currency of each of the Group's entities shall be subject to the currency applicable in the main economic environment in which its business place is situated. The consolidated financial statements should be presented based on the Company's functional currency, NTD. Unless otherwise noted, all of the financial information presented in NTD should be held presented in NTD 1,000 as the currency unit.

(3) <u>Basis for consolidation</u>

A. Principles for preparation of consolidated financial statements

(a) The Group included all of the subsidiaries into the consolidated financial statements. Subsidiaries mean the entities controlled by the Group (including structured entities). When the Group is exposed to the changes of remuneration participated by the entities or is entitled to changes of remuneration, and is able to influence the remuneration by virtue of its power over the entities, the Group is held controlling the entities. The subsidiaries are included into the consolidated financial statements on the date when the Group acquires the controlling power, and the consolidation shall be suspended as of the date when the Group forfeits the controlling power.

(b) Unrealized gains on transactions between the Group companies are eliminated to the extent of the Group's interest in the associates. Accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Elements of the income and other comprehensive income shall be vested in parent company shareholders and non-controlling equity. The total comprehensive income shall be vested in parent company shareholders and non-controlling equity, even if the non-controlling equity suffers loss.

(d) Where the changes in shareholdings of subsidiaries don't result in forfeiture of controlling power (transactions with non-controlling equity), they shall be processed as equity transactions, which are identified as the transactions with parent company shareholders. The price difference between the adjustment value of non-controlling equity and fair value of paid or collected consideration shall be stated into equity directly.

(e) When the Group forfeits control over its subsidiaries, its residual investment in the subsidiaries shall be re-measured based on fair value, and identified as the fair value of financial asset recognized initially or cost of the investment in affiliates or joint ventures recognized initially. The price difference between the fair value and book value is stated into current income. Where the accounting treatment for the values related to the subsidiaries as stated into other comprehensive income previously is identical with the basis for the Group's direct disposition of related assets or liabilities, namely, if the gain or loss stated into other comprehensive income previously would be reclassified into income when the related assets or liabilities are disposed of, the gain or loss shall be reclassified into income from equity, when the Group forfeits control over the subsidiaries.

B. Subsidiaries included into the consolidated financial statements and status of change thereof:

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) | | Description |
|---|---|---|---|---|---|
| | | | **2019. 12.31** | **2018 12.31** | |
| MPI | Chain-Logic International Corp. | professional equipment agent and provides technologic service for the manufacturing of high-tech industry such as LED, LCD, Semiconductor, and etc. | 100% | 100% | Established on March 1 ,1994 |
| MPI | MPI TRADING CORP.(Samoa) | Selling Probe Card and Test Equipment | 100% | 100% | Established on December 22, 2000. |
| MPI | MMI HOLDING CO., LTD.(Samoa) | Investment activities | 100% | 100% | Established on August 7, 2002. (Note **1**) |
| MPI | MEGTAS CO., LTD | Test, maintenance, manufacturing and import/export trading of parts of semiconductors | 80% | 80% | Established on September 1, 2010.( Note **3**) |
| MPI | WANG-TONG CORP. | Maintenance, purchase, sales, research and development of computers and peripheral equipment; | - | - | Established on December 22, 2010. The Company dismissed on August 15, 2018 and liquidated in September 14, 2018. (Note **2**) |
| MPI | ALLSTRON CORP. | Manufacturing of high frequency wafer foundry measuring probing | 100% | 100% | Established on March 31, 2006. The Company started on January 1, 2014 as the acquisition date, acquiring 100% of the shares. |

| | | | | | |
|---|---|---|---|---|---|
| MPI | MPA TRADING CORP. | Investment activities | 100% | 100% | Established on April 12, 2017. |
| Chain-Logic International Corp. | CHAIN-LOGIC TRADING CORP. (Mauritius) | International trading business | 100% | 100% | Established on November 19, 2001. (Note **5**) |
| CHAIN-LOGIC TRADING CORP. | CHAIN LOGIC （SHANGHAI） INTERNATIONAL CORP. | International trading | - | 100% | Established on February 8, 2002. (Note **4**) The Company liquidated on November 11, 2019. (Note **6**) |
| MMI HOLDING CO., LTD. | Lumitek (ChangZhou) Co.,Ltd. | Selling and manufacturing of high-tech industry such as LED. | 100% | 100% | Established on January 10, 2014. |
| MMI HOLDING CO., LTD. | MPI (Suzhou) CORPORATION | Selling and manufacturing of high-tech industry such as LED. | 100% | 100% | Established on July 11, 2017. |
| MPA TRADING CORP. | MPI AMERICA INC. | Selling Probe Card and Test Equipment | 100% | 100% | Established on March 29, 2017. |

(Note1) The Group invested MMI HOLDING CO., LTD. resolved to reduce the cash capital US$2,857,000(equivalent to NT$84,006 thousand) by the Board of Directors meeting in April 25, 2018 and reduce the cash capital US$936,870(equivalent to NT$28,669 thousand) on September 11, 2018.

(Note2) On August 15, 2018, the Group passed the liquidation of WANG-TONG CORP., which was liquidated and written off on September 14, 2018, and remitted the surplus investment of NT$4 thousand.

(Note3) In order to coordinate the corporation's operating program and promote the efficiency of capital usage, the Group has reported to the board of directors to take over 20% of equity on MEGTAS CO., LTD. In ₩5,000 per share on November 8, 2018. The total investment cost is NT$13,861 thousand and the date of the takeover is on October 5, 2018. Besides the company will take over 100,000 shares, and the shareholding ratio will increase from 60% to 80%. The difference between consideration paid and carrying amount of subsidiaries acquired was NT$4,576 thousand.

(Note4) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the reduction of cash capital RMB 7,583,950 (equivalent to US$1,100,000) by the Board of Directors meeting, and the amount of cash capital reduction has remitted to CHAIN-LOGIC TRADING CORP. on June 28, 2019.

(Note5) The subsidiary of the Group – CHAIN-LOGIC TRADING CORP. has passed the reduction of cash US$1,100,000 (equivalent to NT$34,234 thousand) by the Board of Directors meeting, and the amount of cash capital reduction has remitted to Chain-Logic International Corp. on July 9, 2019. The Investment been approved by Commission on MOEA put on record.

(Note6) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the liquidation by the shareholders' meeting, which was liquidated and written down in November 2019, and remitted the surplus investment of US$428,835.20 (equivalent to NT$12,683 thousand) in December 27, 2019. The Investment been approved by Commission on MOEA put on record on February 27, 2020.

These subsidiary's financial statements were audited by CPA. The period of these subsidiary's financial statements were the same with parent company and their profit and loss were recognized according to the proportion of shares held.

The financial statements 2019 and 2018 of said subsidiary, MEGTAS CO., LTD., were audited by other external auditors commissioned by it, instead of the Company's external auditors. The investment (losses) recognized according to the financial statements audited by other external auditors and based on the shareholdings were (NT$1,544) thousand and NT$5,693 thousand.

The financial statements 2019 and 2018 of said subsidiary, MPI AMERICA INC. were audited by other external auditors commissioned by it, instead of the Company's external auditors. The investment (losses) recognized according to the financial statements audited by other external auditors and based on the shareholdings were (NT$60,344) thousand and (NT$50,513) thousand.

C. Subsidiaries not included into the consolidated financial statements: None.

D. Different adjustment and treatment by subsidiaries in the accounting period: None.

E. Nature and scope of the important restrictions on enterprise's acquisition or use of the group's assets and solvency: None.

F. Subsidiaries over which the Group holds important non-controlling equity: None.

(4) Foreign currency

A. Foreign currency transactions

The foreign currency exchange shall be stated at the functional currency translated at the exchange rate prevailing on the date of transaction. The monetary items denominated in the foreign currency on the reporting date shall be stated at the functional currency translated at the exchange rate on the same day. The exchange gain or loss refers to the difference between the amounts upon adjustment of the valid interest, payment on the same period based on the amortized cost denominated in the functional currency, the amount translated from the amortized cost denominated in foreign currency at the exchange rate on the reporting date. The non-monetary items at fair value denominated in foreign currency shall be stated at the functional currency re-translated at the exchange rate prevailing on the same date of fair value measurement, while the non-monetary items at historical cost denominated in foreign currency shall be stated at the functional currency translated at the exchange rate on the date of transaction. Other than the foreign currency exchange difference generated from the translation of the application of IFRS 9 foreign currency items which in the process of applying the financial instrument accounting policies (before January 1, 2018, IAS 39), financial liabilities designated as net investment hedge for foreign operations or qualified cash flow hedging, which shall be stated as other comprehensive income, any difference shall be stated as income.

B. Foreign operations

Assets and liabilities of foreign operations, including the goodwill and fair value adjustment generated at the time of acquisition, shall be translated into functional currency at the exchange rate prevailing on the reporting date. Unless in the case of inflation, the income and expense & loss items shall be translated into functional currency at the average exchange rate in the current period, and the exchange different generated therefore shall be stated as other comprehensive income.

When disposition of foreign operations results in loss of control, common control or any material effect, the accumulated exchange difference related to the foreign operations shall be reclassified into income in whole. If the disposition involves any subsidiary of the foreign operations, the relevant accumulated exchange difference shall be reclassified into the non-controlling interests on a pro rata basis. If the disposition involves any affiliate or joint venture of the foreign operations, the relevant accumulated exchange difference shall be reclassified into income on a pro rata basis.

If no repayment program is defined with respect to receivable or payable items of foreign operations denominated in currency and it is impossible to repay the same in the foreseeable future, the foreign currency exchange gain or loss generated therefore shall be held a part of the net investment in the foreign operations and stated as other comprehensive income.

(5) <u>Current and non-current assets and liabilities</u>

Assets which meet one of the following conditions shall be classified into current assets, and any assets other than the current assets shall be classified into noncurrent assets:

A. Assets expected to be realized, or intent to be sold or consumed, in the Company's normal operating cycle.

B. Assets primarily held for the purpose of trading.

C. Assets expected to be realized within 12 months after the date of the balance sheet.

D. Cash or cash equivalent, exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet.

Liabilities which meet one of the following conditions shall be classified into current liabilities, and any liabilities other than the current liabilities shall be classified into noncurrent liabilities:

A. Liabilities expected to be repaid in the Company's normal operating cycle.

B. Assets primarily held for the purpose of trading.

C. Assets expected to be discharged within 12 months after the date of the balance sheet.

D. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalent

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

The bank time deposits to initially expire within one year are intended to satisfy the short-term cash commitment instead of investment or others, which may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and, therefore, are stated as cash or cash equivalent.

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

D. The Group recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at amortized cost

A. Financial assets at amortized cost are those that meet all of the following criteria:

(a) The objective of the Group's business model is achieved by collecting contractual cash flows.

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognized in profit or loss when the asset is derecognized or impaired.

D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(9) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

Including financial assets at amortized cost and accounts receivable or contract assets that have a significant financing component , at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(12) Financial liabilities at fair value through profit or loss

A. Financial liabilities are classified in this category of held for trading-if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges, or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(a) Hybrid (combined) contracts; or

(b)They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these inancial liabilities at fair value with any gain or loss recognised in profit or loss.

(13) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(14) Convertible bonds payable

Convertible bonds or issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

A. The embedded call options and put options are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

B. The host contracts of bonds or are initially recognized at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortized in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.

C. The embedded conversion options which meet the definition of an equity instrument are initially recognized in 'capital surplus—share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.

D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

E. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'capital surplus—share options'.

(15) Derecognition of financial liabilities

A. A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.

B. Where there has been a renegotiation or modification of the terms of an existing financial liability and resulted in an insignificant discrepancy which is less than ten percent of the estimated cash flows, the carrying amount of the liability is recalculated based on the modified cash flows discounted at the original effective interest rate. The gain or loss arising from the carrying amount after modification less the initial recognition of the financial liability is recognized in profit or loss.

C. Where there has been a substantial renegotiation or modification of the terms of an existing financial liability and resulted in a significant discrepancy which is at least ten percent of the estimated cash flows, the carrying amount of the liability is recalculated based on the modified cash flows discounted at the original effective interest rate. The gain or loss arising from the carrying amount after modification less the initial recognition of the financial liability is recognized in profit or loss.

(16) Inventory

The inventories shall be stated at the lower of cost and net realizable present value. The cost should include the costs of acquisition, production or processing or others incurred when the inventory is sellable or producible and at the location where the inventory is sellable or producible, and calculated under weighted average method. The costs of inventories for finished goods and work in process include the manufacturing expenses amortized based on the normal productivity on a pro rata basis.

Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs under the normal operation.

(17) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and stop arranging the depreciation.

(18) Investment accounted for using equity method-Affiliate

An affiliate means an entity in which the Group has major influence over the financial and operating policies but has no control over the same. The Group will be assumed having major influence when it holds 20%~50% of the voting right in the investee.

Under the equity method, the investment is stated at cost at time of acquisition initially. The investment includes trading cost. The book value of investment in affiliates includes the goodwill identified at the time of initial investment less any accumulated impairment loss.

The consolidated financial statements shall include the income from the invested affiliates recognized subject to the shareholdings and other comprehensive income upon adjustment made in line with the Group’s accounting policy, from the date when the Group has major influence until the date when the Group loses the major influence.

The unrealized gains from transactions between the Group and affiliates have been derecognized from the Group's equity in the investees. The unrealized loss shall be derecognized in the same manner applicable to unrealized gains; provided that the unrealized loss is limited to that arises under no impairment evidence is available.

When the Group’s share of loss from any affiliate to be recognized on a pro rata basis is equivalent to or more than its equity in the affiliate, it shall stop recognizing the loss, but shall recognize the additional loss and relevant liabilities only when legal obligation or constructive obligation is incurred or the Group makes payment on behalf of the investee.

Where the Group forfeits its material influence over an affiliate when the Group disposes of the affiliate, the capital surplus related to the affiliate will be stated as income, provided that where it still has material influence over the affiliate, the capital surplus shall be stated as income based on the proportion of disposition.

(19) Property, plant and equipment

A. Recognition and measurement

Property, plant and equipment shall be recognized and measured using a cost model, and measured at the cost less accumulated depreciation and accumulated impairment. The costs include the expenses directly attributable to the acquisition of assets. The costs of self-built assets include the costs of raw materials and direct labor, any other costs directly attributable to usable status of investment assets, costs of dismantling and removal of the items and recovery of premises, and loan cost that meets the requisite asset capitalization. Meanwhile, the costs also include the purchase of property, plant and equipment denominated in foreign currency.

When property, plant and equipment consist of various components, and the total cost for the item is significant and it is advisable to apply different depreciation ratio or methods, the property, plant and equipment should be treated separately (for major components).

The gain or loss on disposal of property, plant and equipment shall be decided based on the price difference between the book value of property, plant and equipment and proceeds on disposal of the same and recognized as the “other gains and losses” in the income statement on a net basis.

B. After cost

If the future economic effect expected to be generated from the after expenses of property, plant and equipment is very likely to flow into the Group and the amount thereof may be measured, the expenses shall be stated as a part of the book value and the relocated book value should be derecognized. The routine maintenance and repairs of property, plant and equipment shall be stated as income when incurred.

C. Depreciation

The depreciation shall be calculated at the cost of assets less residual value using the straight-line method over the estimated useful years, and evaluated based on the various major components of the assets. If the useful years for any component are different from those of other components, the component shall be depreciated separately. The depreciation shall be stated as income.

No depreciation of land is required.

The estimated useful years in the current period and comparative period are stated as follows:

| Item | Useful years |
|---|---|
| House and building | |
| Plant and dormitory | 20-50 |
| Clean room | 20 |
| Electrical and mechanical facilities | 20 |
| Others | 10-20 |
| Machine & equipment | 5-13 |
| Transportation equipment | 4-6 |
| Furniture and fixtures | 3-10 |
| Research equipment | 2-13 |
| Other equipments | 3-9 |
| Leased assets(Applicable in year 2018) | 5 |
| Assets leased to others | 5 |

D. Depreciation, useful years and residual value shall be reviewed at the end of each fiscal year. If the expected value is different from the previous estimate, adjustment should be made if necessary, and the changes shall be treated as changes in accounting estimates.

(20) Leasing arrangements (lessor)－lease receivables/ operating leases

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the lessee assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) At commencement of the lease term, the lessor should record a finance lease in the balance sheet as ‘lease receivables’ at an amount equal to the net investment in the lease (including initial direct costs). The difference between gross lease receivable and the present value of the receivable is recognized as ‘unearned finance income of finance lease’.

(b) The lessor should allocate finance income over the lease term based on a systematic and rational basis reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

(d) Lease payments (excluding costs for services) during the lease term are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

B. Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(21) Leasing arrangements (lessee)－right-of-use assets / lease liabilities

Effective 2019

A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.

(a) Fixed payments, less any lease incentives receivable;

(b) Variable lease payments that depend on an index or a rate;

(c) Amounts expected to be payable by the lessee under residual value guarantees;

(d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Group subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

(a) The amount of the initial measurement of lease liability;

(b) Any lease payments made at or before the commencement date;

(c) Any initial direct costs incurred by the lessee; and

(d)An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(22) Lease

Effective 2018

A. None of the Company's lease terms and conditions has transferred the risk and return attached to the title of assets to the lessee. All of the leases are classified as operating leases. The income from lease shall be stated as income based on the straight line method within the related lease period. The lease payment shall be stated as expenses based on the straight line method within the related lease period. The contingent rent under operating lease shall be stated as expenses when it is incurred.

B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

(23) Intangible assets

A. Goodwill

Where the acquisition cost of identifiable net assets acquired upon merger, if any, is more than the fair value of the assets, the excess shall be stated as goodwill. Goodwill shall be measured at cost less accumulated impairment.

For the investment under equity method, the face value of goodwill is included into that of the investment. Meanwhile, the impairment loss on such investment is not allocated to goodwill or any assets, but a part of the book value of the investment under equity method.

B. Software

Software is amortized over 1~5years on a straight-line basis.

C. Internally generated intangible assets—research and development expenditures

(a) Research expenditures are recognized as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognized as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

Ⓐ It is technically feasible to complete the intangible asset so that it will be available for use or sale;

Ⓑ An entity intends to complete the intangible asset and use or sell it;

Ⓒ An entity has the ability to use or sell the intangible asset;

Ⓓ It can be demonstrated how the intangible asset will generate probable future economic benefits;

Ⓔ Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; And

Ⓕ The expenditure attributable to the intangible asset during its development can be reliably measured.

(24) Impairment on non-financial assets

A. The Group will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization without impairment.

B. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face value. The impairment loss on goodwill shall not be reversed in following years.

C. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit group expected to benefit from the merger of businesses generating the goodwill.

(25) Reserve for liabilities

The reserve for liabilities shall be recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Group's reserve for liabilities for warranty shall be recognized when the goods or services are sold. The reserve for liabilities shall be measured under weighted method based on the historical warranty information and potential results subject to the relevant possibility.

(26) <u>Treasury stock</u>

The issued stock recalled by the Group is stated based on the consideration paid for repurchase (including direct vested cost), recognized as "treasury stock" at the net after tax and presented as a deduction from equity. Where the gain on disposal of treasury stock is higher than the book value, the difference shall be credited under the title “additional paid-in capital-transaction of treasury stock”. Where the gain is lower than the book value, the difference is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. The book value thereof is calculated based on the weighted average method according to the type of stock (common stock or special shares) and causes for the withdrawal.

Cancellation of treasury stock shall be credited under the title “treasury stock”, and debited as “additional paid-in capital-stock premium” and “capital stock”. Where the book value of treasury stock is higher than the total of the book value and stock premium, the balance is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. Where the book value of treasury stock is lower than the total of the book value and stock premium, the difference should be credited as the additional paid-in capital generated from the transactions of treasury stock under the same type.

(27) <u>Revenue recognition</u>

A. Sales of goods

(a) The Group manufactures and sells a range of semi-conductor production process and testing equipments in the market. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) The Group’s obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.

(c) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Labor service

The Group provides semi-conductor production process and testing equipments proxy services. Revenue from providing services is recognized in the accounting period in which the services are rendered. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

C. Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

D. Incremental costs of obtaining a contract

The Group recognizes an asset (shown as 'Prepayments ') the incremental costs (mainly comprised of sales commissions) of obtaining a contract with a customer if the Group expects to recover those costs. The recognized asset is amortized on a systematic basis that is consistent with the transfers to the customer of the goods or services to which the asset relates. The Group recognizes an impairment loss to the extent that the carrying amount of the asset exceeds the remaining amount of consideration that the Group expects to receive less the costs that have not been recognized as expenses.

(28) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(29) Government subsidies

The government subsidies shall be stated at fair value when it is reasonable to ensure that an enterprise will comply with the conditions incident to the government subsidies and the subsidies may be received affirmatively. If the government subsidies, in nature, are intended to compensate the expenses incurred by the Group, the government subsidies shall be stated as the current income on a systematic basis when the related expenses are incurred.

(30) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at non-discounted amount expected to be paid, and stated as expenses when the relevant services are provided.

B. Pension

(a) Defined contribution plan

Under the defined contribution plan, every contribution made to the pension fund is recognized as pension cost in the period occurred using the accrual basis. The prepaid contribution may be stated as assets, insofar as it may be refunded in cash or the future payment is reduced.

(b) Defined benefit plan

Ⓐ The net obligation under the defined benefit pension plan is converted to the present value based on the future benefit earned from the services provided by the employees under various benefit plans in the current period or in the past, and the present value of defined benefit obligations on the balance sheet date less the fair value of the planned assets. An actuary using the Projected Unit Credit Method estimates defined benefit obligations each year. The discount rate shall be based on the market yield rate of corporate bonds of high credit standing that have the same currency exposure and maturity date as the obligations on the balance sheet date, but the market yield rate of government bonds (on the balance sheet date) shall apply in the country where no market of corporate bonds of high credit standing is available.

Ⓑ The re-measurement generated from the defined benefit plan is stated as other comprehensive income in the period when it is incurred, and presented in the retained earnings.

Ⓒ The expenses related to the service cost in the previous period shall be recognized as income immediately.

Ⓓ The interim pension cost applied the pension cost ratio decided upon actuation at the end of the previous fiscal year, and was calculated from the beginning of year until the end of the current period. In the case of material changes in market and material reduction, repayment or other important event at the end, it shall be adjusted and related information shall be disclosed pursuant to said policies.

C. Resignation benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decision to terminate an employee’s employment before the normal retirement date, or an employee’s decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group will not state the benefits as expenses until the offer of benefits cannot be withdrawn or the related reorganization cost is stated, whichever earlier. It is not expected that benefits falling due more than 12 months after balance sheet date are discounted to their present value.

D. Remuneration to employee and directors/supervisors

The remuneration to employees and directors/supervisors shall be recognized as expenses and liabilities only when legal or constructive obligation is constituted and the value thereof may be estimated reasonably. Subsequently, if the actual distributed amount resolved is different from the estimate, the difference shall be treated as a change in accounting estimate.

(31) Employees' share-based payment

The transaction is share-based payment for settlement of equity. The share-based payment agreement shall measure the labor services provided by employees based on the fair value of the equity instruments granted on the date of granting, which shall be recognized as the remuneration cost during the vested period, and the equity shall be adjusted relatively.

The fair value of equity instruments shall reflect the effect produced by the vested conditions and non-vested conditions of market value. The recognized remuneration cost is adjusted based on the quantity of remuneration expected to meet service conditions and non-market value vested conditions, until the amount recognized ultimately is measured based on the vested quantity on the vested date.

(32) Income tax

A. The income tax expenses consist of current income tax and deferred income tax. The income tax shall be stated as income other than the income tax related to the titles stated into other comprehensive incomes or into equity directly, which shall be stated into other comprehensive income or into equities directly.

B. The Group calculates the income tax related to the current period based on the statutory tax rate or tax rate substantially enacted in the countries where the Company is operating and generating taxable income on the balance sheet date. The management shall evaluate the status of income tax return within the statutory period defined by the related income tax laws, and shall be responsible for the income tax expected to be paid to the tax collection authority. Undistributed earnings, if any, shall be levied income tax. Income tax expenses for undistributed earnings will be stated in the year next to the year when the earnings are generated, upon approval of the motion for allocation of earnings at a shareholders' meeting.

C. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction (exclusive of business merger) shall not be recognized; insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Group and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.

D. Deferred income tax assets shall be recognized, insofar as temporary difference is very likely to credit against future taxable income, and deferred income tax assets which are recognized and unrecognized shall be re-evaluated on each balance sheet date.

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

F. Unused tax credits derived from purchase of equipment or technology, R&D expenditure and equity investment can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against.

G. The average effective tax rate used to estimate the interim income tax expenses shall apply to the interim income before tax, and the relevant information shall be disclosed pursuant to said policies.

H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(33) <u>Business combination</u>

A. The Group adopts the acquisition method to proceed with business combination. The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be issued. The consideration for the transfer includes the fair value of any assets and liabilities generated from the contingent consideration agreement. The cost related to acquisition is stated as expense when it is incurred. The identifiable assets and liabilities acquired from the business combination shall be measured at the fair value on the day of acquisition. Based on individual acquisition transaction, the elements of non-controlling equity which refer to the current ownership, of which the holder is entitled to the business's net assets on a pro rata basis at the time of liquidation may choose to measure the fair value based on the fair value on the date of acquisition or subject to proportion of non-controlling equity in the acquired identifiable net assets. The other elements of non-controlling equity shall be measured at the fair value on the date of acquisition.

B. Goodwill arises when the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held exceeds the fair value of identifiable assets and liabilities. The price difference shall be stated as income on the date of acquisition if the fair value of identifiable assets and liabilities as acquired exceeds the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held.

(34) EPS

The Group will enumerate the basic and diluted EPS vested in the Company's common stock holders. The Group's EPS is calculated based on the income vested in the Company's common stock holders dividing by the number of shares of the weighted average outstanding common stock. The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the number of shares of the weighted average outstanding common stock. The Group's potential diluted common stock includes the stock options granted to employees.

(35) Information by department

The Group consists of various members including the operations engaged in operating activities likely to earn revenue and incur expense (including the revenue and expense from the transactions with the other members within the Group). The operating results of all operations are rechecked by the Group's operating decision maker periodically for making of the decision to allocate resources to each operation and evaluation of each operation's performance. Each operation's financial information is independent from that of the others.

## 5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

A. Critical judgements in applying the Group's accounting policies

Revenue recognition on a net/gross basis

(1) The Group determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for the other party to provide those goods or services (i.e. the Group is an agent) based on the transaction model and its economic substance. The Group is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Group recognises revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Group is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Group recognises revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services.

(2) Indicators that the Group controls the good or service before it is provided to a customer include the following:

(a) The Group is primarily responsible for the provision of goods or services;

(b) The Group assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer.

(c) The Group has discretion in establishing prices for the goods or services.

B. Critical accounting estimates and assumptions

(1) Allowance for uncollectible of receivable accounts

The Group evaluates and estimates the collectible receivable accounts and allowance for uncollectible accounts according to the loan quality and collection of debt from customers and based on the past experience in collecting allowance for uncollectible accounts. If some event or change resulting in failure to collect the debt shows, it is necessary to estimate the allowance for uncollectible accounts. If the projected collected cash is different from the estimation, the difference will affect the book value of receivable accounts and expected credit loss in the year in which the estimation is changed. Until December 31, 2019, the book value of receivable accounts has been NT$1,330,166 thousand (exclusive of the allowance for uncollectible accounts, NT$23,100 thousand).

(2) Evaluation of inventory

The inventories shall be stated at the lower of cost and net realizable present value. Therefore, the Group has to decide the net realizable present value of the inventory on the balance sheet date based on judgment and estimation. Due to the rapid transformation of technology, the Group evaluates the value of inventories after excluding the torn and worn, out-of-fashion or unmarketable ones on the balance sheet date, and offset the cost of inventories against net realizable value. Until December 31, 2019, the book value of the Group's inventories has been NT$2,254,516 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT$310,777 thousand).

(3) Realizability of deferred income tax assets

Deferred income tax assets shall be recognized only when it is very likely that there will be sufficient taxable income afford to deduct temporary difference. To evaluate the realizability of deferred income tax assets, the management has to exert judgment and estimation, including the hypotheses about expectation toward growth and profit rate of future sale revenue, applicable income tax credit and taxation planning. The transformation of global economic environments and industrial environments and changes in laws and regulations, if any, might result in material adjustment on deferred income tax assets. Until December 31, 2019, the deferred income tax assets recognized by the Group have been NT$124,291 thousand.

(4) Recognition of revenue

In principle, sale revenue is recognized at the time the earning process. The related reserve for liabilities is provided based on the estimated after-sale warranty cost potentially incurred due to historical experience and other known causes, and stated as the sale cost in the period in which the product is sold. The reasonableness of estimation is also reviewed periodically. Until December 31, 2019, the reserve for liabilities recognized by the Group have been NT$6,572 thousand.

(5) Calculation of net defined benefit liability

In the calculation of the determined welfare obligation, the Group must make use of judgment and estimate to determine relevant actuarial assumption on the balance sheet date, including the discount rate and growth of future salary. Any changes in the actuarial hypotheses might affect the value of the Group’s defined benefit obligation materially. As of December 31, 2019, the book value of accrual pension liabilities of the Group amounted to NT$32,768 thousand.

## 6. Notes to Major Accounting Titles

### (1) Cash and cash equivalents

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash: | | |
| Cash on hand | $ 5,015 | $ 5,352 |

| | | |
|---|---|---|
| Cash in banks: | | |
| Checking deposits | 10 | 10 |
| Demand deposits | 1,075,301 | 1,063,911 |
| Time deposits | 22,985 | 41,421 |
| Total | $ 1,103,311 | $ 1,110,694 |

The bank deposits provided by the Group as collateral have been re-stated as other current assets. Please see Note 8.

**(2) Financial assets at amortised cost-current**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Financial products | $ - | $ 49,313 |

A. Start from January to December 31, at 2019 and 2018, the Group recognized interest revenue of financial assets at amortized cost were NT$ 727 thousand and NT$0.

B. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortized cost held by the Group was NT$0 and NT$49,313 thousand, respectively.

C. The Group's financial assets at amortized cost were not been provided as collateral on December 31, 2019 and December 31 , 2018.

D. Information relating to credit risk of financial assets at amortized cost is provided in Note 12(2).

**(3)A. Note receivables, net**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Notes receivable | $ 96,074 | $ 100,753 |
| Less: Allowance for uncollectible accounts | - | - |
| Notes receivable, net | $ 96,074 | $ 100,753 |

a. The Group's receivable notes were issued for business and never been provided as collateral.

b. The ageing analysis of notes receivable is stated as follows:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Total | impairment | Total | impairment |
| Neither past due nor impaired | $ 96,074 | $ - | $100,753 | $ - |
| 1~90 days | - | - | - | - |
| 91 to 180 days | - | - | - | - |
| 181 to 360 days | - | - | - | - |
| 361 to 720 days | - | - | - | - |
| Over721 days | - | - | - | - |
| Total | $ 96,074 | $ - | $100,753 | $ - |

The above ageing analysis was based on account day.

**B. Accounts receivable, net**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable | $ 1, 256,673 | $ 956,693 |
| Less: Allowance for uncollectible accounts | (22,581) | (11,264) |
| Accounts receivable, net | $ 1,234,092 | $ 945,429 |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable-related parties | $ - | $ - |
| Less: Allowance for uncollectible accounts | - | - |
| Accounts receivable-related parties, net | $ - | $ - |

| Overdue receivable | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Less: Allowance for uncollectible accounts | $ 519 | $ 2,836 |
| Overdue receivable, net | (519) | (2,836) |
| Accounts receivable | $ - | $ - |

a. The Group's receivable accounts were incurred for business and never been provided as collateral.

b. For the information about the changes of allowance for uncollectible accounts provided for the impairment on receivable accounts and account age analysis on loans (for the disclosure of credit risk, please see Note 12(2)):

| | Group provision | Individual provision | Total |
|---|---|---|---|
| At January 1,2019 | $ 14,100 | $ - | $ 14,100 |
| Provision for impairment | 11,913 | 2,698 | 14,611 |
| Reversal of impairment | (2,880) | - | (2,880) |
| Write-offs during the period | - | (2,698) | (2,698) |
| Unwinding of discount and premium | ( 33) | - | ( 33) |
| At December 31, 2019 | $ 23,100 | $ - | $ 23,100 |
| | | | |
| At January 1,2018 **(IAS 39)** | $ 13,014 | $ 67 | $ 13,081 |
| Adjustments under new standards | - | - | - |
| At January 1,2018 **(IFRS 9)** | 13,014 | 67 | 13,081 |
| Provision for impairment | 1,184 | - | 1,184 |
| Reversal of impairment | - | - | - |
| Write-offs during the period | - | (67) | ( 67) |
| Unwinding of discount and premium | ( 98) | - | ( 98) |
| At December 31, 2018 | $ 14,100 | $ - | $ 14,100 |

c. The ageing analysis of accounts receivable is stated as follows:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Total | impairment | Total | impairment |
| Neither past due nor impaired | $1,028,275 | $ - | $ 818,783 | $ - |
| 1~90 days | 181,027 | 12,671 | 125,908 | 8,814 |
| 91 to 180 days | 32,138 | 4,821 | 6,656 | 998 |
| 181 to 360 days | 10,112 | 2,528 | 4,885 | 1,221 |
| 361 to 720 days | 5,121 | 2,561 | 461 | 231 |
| Over721 days | 519 | 519 | 2,836 | 2,836 |
| Total | $1,257,192 | $ 23,100 | $ 959,529 | $ 14,100 |

The above ageing analysis was based on past due date.

C. As of December 31, 2019 and December 31, 2018, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to NT$968,456 thousand.

(4) Inventories

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials | $ 635,425 | $ 668,630 |
| Supplies | 119,819 | 131,999 |
| Work-in-process | 402,527 | 436,246 |
| Semi-finished goods | 348,015 | 348,101 |
| Finished goods | 927,206 | 1,130,483 |
| Merchandise | 120,756 | 76,197 |
| Materials and supplies in transit | 11,545 | 19,107 |
| Less：Allowance to reduce inventory to market | (310,777) | (255,711) |
| Inventories, net | $ 2,254,516 | $ 2,555,052 |

A. Expenses and losses related to inventory recognized in the current period:

| | 2019 | 2018 |
|---|---|---|
| Cost of inventories sold | $ 3,179,227 | $ 3,206,213 |
| Loss on market price decline inventories (gain from price recovery) | 55,065 | 10,398 |
| Loss on obsolescence of inventory | 10,974 | - |
| Other operating costs- employees' bonus | 25,592 | 19,226 |
| Estimated warranty liabilities | 12,951 | 10,268 |
| Depreciation of assets leased to others | 2,490 | - |
| Operating Cost | $ 3,286,299 | $ 3,246,105 |

B. As of December 31, 2019 and 2018, the inventory was not pledged as collateral.

(5) Investments accounted for using equity method (Include Re-stated as Non-current assets held for sale)

The Investment under equity method by the Group on the reporting date is stated as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Names of Investee company | Amounts | Amounts |
| **Associates：** | | |
| MJC Microelectronics Shanghai Co., Ltd. | $ - | $ - |
| Total | $ - | $ - |

A. Changes in investment under equity method:

| | 2019 | 2018 |
|---|---|---|
| Balance , beginning | $ - | $ 29,999 |
| Cash dividend | - | (861) |
| Investment income under equity method | - | 151 |
| Cumulative translation adjustments | - | 175 |
| Loss (gain) on disposal of equity -method investments- MMS electronics tech. (Shanghai) co., ltd | - | 1,733 |

| | | |
|---|---|---|
| Loss from disposal of investments- MMS electronics tech. (Shanghai) co., ltd | - | (28,081) |
| Transfer to non-current asset held for sale | - | (3,116) |
| Balance , ending | $ - | $ - |

B. The information about affiliates important to the consolidated companies is stated as following:

| Company name | Nature of relationship | Principal place of business | Shareholding ratio December 31, 2019 | Shareholding ratio December 31, 2018 | Methods of measurement |
|---|---|---|---|---|---|
| MJC Microelectronics Shanghai Co., Ltd. | To develop the Market of China. Close in Aug.31, 2018. | China | - | - | Equity method |

C. Book value and share of operating result of the affiliates not important to the Group individually

The financial information about the Group's affiliates under equity method not important the Company individually is summarized as following. Said financial information refers to the figures included into the Group's consolidated financial statements:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| The carrying amount of the Group's individually immaterial associates | $ - | $ - |

| | 2019 | 2018 |
|---|---|---|
| Profit or loss for the period from continuing operations | $ - | $ 151 |
| Loss for the period from discontinued operations | - | - |
| Other comprehensive income- net of tax | - | - |
| Total comprehensive income | $ - | $ 151 |

D. For the year of 2018, apart from MJC Microelectronics Shanghai Co., Ltd. that has already liquidated (the Group has recognized the share of affiliated enterprise with the equity methods according to the invested Group's non-CPA audited financial statements, and the Group's management believes that no major adjustment will be made to the said statements even after a CPA audit).

E. As of December 31, 2018, the Investments accounted for using equity method were not pledged as collateral.

F. (a) Company management board has on December 28, 2017 voted on a resolution to sell the entire shareholdings of the affiliated enterprise – MJC Microelectronics (Kunshan) Co., Ltd. of the group's subsidiary MMI Holding Co., Ltd to Japanese MJC Corporation (MJC is the parent firm of MJC Microelectronics (Kunshan) Co., Ltd.), and the two parties agree to set the total shareholding transfer transaction to the sum of RMB18,000 thousand (at approximately NT$81,927 thousand, when calculated at the exchange rate of 4.5515 on Dec. 31, 2017), and planned to complete the liquidation proceedings in the next 12 months. The group has reclassified its investment held in MJC Microelectronics (Kunshan) Co., Ltd.'s book value amount totaling NT$71,302 thousand to under the non-current asset held for sale item on its combined balance sheet as of Dec. 31, 2017.

(b) On March 23, 2018, MMI HOLDING CO., LTD., a subsidiary of the Group, received a sum of NT$82,710 thousand for the sale of the affiliated enterprise – MJC Microelectronics (Kunshan) Co., Ltd. The Investment been approved by Commission on MOEA had the investment approved document. The original book value was NT$71,302 thousand. After writing off and transferring foreign currency translation reserve of financial report in the foreign operating institution, MMI HOLDING CO., LTD will recognize the disposal of investment gain NT$9,208 thousand.

G. MMI HOLDING CO., LTD., a subsidiary of the Group, transferred subsidiary MJC Microelectronics (Shanghai) Co., Ltd. completed the liquidation on August 31, 2018 and remitted the liquidation amount of NT$28,081 thousand (after deducting the income tax expense of NT$651 thousand), the recognition of the investment benefit is NT$1,733 thousand and the Investment been approved by Commission on MOEA had the investment approved document.

**(6) <u>Property, plant and equipment</u>**

A. The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

| | Land | Buildings | Machinery | Transportation | Office equipment | Research equipment | Other equipment | Leased assets | Assets leased to others | construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | | |
| At January 1, 2019 | $ 770,963 | $ 1,569,383 | $ 1,493,629 | $ 2,518 | $ 68,630 | $ 748,872 | $ 49,343 | $ 79,415 | $ - | $ 18,543 | $ 4,801,296 |
| Acquisition through business combination | - | - | - | - | - | - | - | - | - | - | - |
| Additions | - | 620 | 68,815 | 1,824 | 11,288 | 6,539 | 24 | - | 10,361 | 214,874 | 314,345 |
| Disposals | - | - | (132,119) | (2,510) | (16,830) | (52,777) | (2,454) | - | - | - | (206,690) |
| Reclassifications | - | - | 59,811 | - | 329 | 7,046 | 82 | (79,157) | (10,361) | - | (22,250) |
| effect of movements in exchange rate | - | (179) | (5,289) | (14) | (298) | - | (669) | (258) | - | (1) | (6,708) |
| At December 31, 2019 | $ 770,963 | $ 1,569,824 | $ 1,484,847 | $ 1,818 | $ 63,119 | $ 709,680 | $ 46,326 | $ - | $ - | $ 233,416 | $ 4,879,993 |
| **Cost:** | | | | | | | | | | | |
| At January 1, 2018 | $ 770,963 | $ 1,510,102 | $ 1,399,554 | $ 2,573 | $ 78,136 | $ 767,263 | $ 50,295 | $ 81,147 | $ - | $ 57,571 | $ 4,717,604 |
| Acquisition through business combination | - | - | - | - | - | - | - | - | - | - | - |
| Additions | - | 19,196 | 68,048 | - | 11,609 | 3,867 | 834 | - | - | 31,556 | 135,110 |
| Disposals | - | (28,213) | (32,807) | - | (21,317) | (52,848) | (1,064) | - | - | - | (136,249) |
| Reclassifications | - | 69,205 | 71,699 | - | 191 | 30,587 | 41.00 | - | - | (70,584) | 101,139 |
| effect of movements in exchange rate | - | (907) | (12,865) | (55) | 11 | 3 | (763) | (1,732) | - | - | (16,308) |
| At December 31, 2018 | $ 770,963 | $ 1,569,383 | $ 1,493,629 | $ 2,518 | $ 68,630 | $ 748,872 | $ 49,343 | $ 79,415 | $ - | $ 18,543 | $ 4,801,296 |
| **Accumulated depreciation and** | | | | | | | | | | | |
| At January 1, 2019 | $ - | $ 352,706 | $ 865,037 | $ 2,518 | $ 37,540 | $ 425,726 | $ 39,477 | $ 47,649 | $ - | $ - | $ 1,770,653 |
| Acquisition through business combination | - | - | - | - | - | - | - | - | - | - | - |
| Additions | - | 69,244 | 232,323 | 124 | 14,683 | 103,578 | 5,262 | - | 2,490 | - | 427,704 |
| Disposals | - | - | (126,537) | (2,510) | (16,745) | (51,674) | (2,454) | - | - | - | (199,920) |
| Reclassifications | - | - | 2,452 | - | - | - | - | (47,494) | (2,490) | - | (47,532) |
| effect of movements in exchange rate | - | (22) | (3,828) | (8) | (215) | - | (627) | (155) | - | - | (4,855) |
| At December 31, 2019 | $ - | $ 421,928 | $ 969,447 | $ 124 | $ 35,263 | $ 477,630 | $ 41,658 | $ - | $ - | $ - | $ 1,946,050 |
| **Accumulated depreciation and** | | | | | | | | | | | |
| At January 1, 2018 | $ - | $ 302,221 | $ 647,830 | $ 2,144 | $ 41,194 | $ 365,676 | $ 31,332 | $ 32,459 | $ - | $ - | $ 1,422,856 |
| Acquisition through business combination | - | - | - | - | - | - | - | - | - | - | - |
| Additions | - | 66,667 | 253,030 | 424 | 17,580 | 112,895 | 9,722 | 16,056 | - | - | 476,374 |
| Disposals | - | (15,976) | (28,168) | - | (21,210) | (52,848) | (1,047) | - | - | - | (119,249) |
| Reclassifications | - | - | (398) | - | - | - | - | - | - | - | (398) |
| effect of movements in exchange rate | - | (206) | (7,257) | (50) | (24) | 3 | (530) | (866) | - | - | (8,930) |
| At December 31, 2018 | $ - | $ 352,706 | $ 865,037 | $ 2,518 | $ 37,540 | $ 425,726 | $ 39,477 | $ 47,649 | $ - | $ - | $ 1,770,653 |
| **Book value** | | | | | | | | | | | |
| **At December 30, 2019** | $ 770,963 | $ 1,147,896 | $ 515,400 | $ 1,694 | $ 27,856 | $ 232,050 | $ 4,668 | $ - | $ - | $ 233,416 | $ 2,933,943 |
| **At December 31, 2018** | $ 770,963 | $ 1,216,677 | $ 628,592 | $ - | $ 31,090 | $ 323,146 | $ 9,866 | $ 31,766 | $ - | $ 18,543 | $ 3,030,643 |

B. The Group sold the building in Dalian Road, Yangpu District, Shanghai, to the non-related party in November, 2018. The sale of a total of RMB 9,227 thousand (equivalent to NT$41,702 thousand), the disposal of benefits was RMB 6,512 thousand (equivalent to NT$29,433 thousand) after deducting the book value and land appreciation, and the transfer procedures were completed in November 2018.

C. The Company signed the contract with the non-related party about the new construction of Zhubei third factory at Zhubei City Tai Ho Section, in September 2019. The total contract amount was NT$465,000 thousand.

D. The collateralized land and building for loans amounted please see note 8 for details.

E. Total capitalized interest see note 6 (18) B for details.

F. About Leased assets as follows：

Effective 2018

(a) Leased assets, net：

| | | 2018 |
|---|---|---|
| Cost | | |
| Machinery | $ | 81,147 |
| Less：Accumulated depreciation | | (48,515) |
| effect of movements in exchange rate | | (866) |
| Leased assets, Net. | $ | 31,766 |

(b) The content of capital were summarized as follows：

Ⓐ The group has in January 2016 signed a leasing contract with a non-stakeholder for a five-year production equipment server contract, and the two parties collectively agree to collaborate by means of professional task-sharing to achieve the integrated operating yield, where the group is to lease/purchase the servers in response to its production capacity requirements, and the two parties consent to set the leasing period to span from January 1, 2016 to December 31, 2020.

Ⓑ Prior to the leasing expiry, the two parties shall negotiate and finalize the servers' final transfer price, provided the two parties collectively agree that the initial transfer price is not to fall below RMB366 thousand, and which effective September 1, 2017 has been amended to not lower than RMB360 thousand, where the group completing remitting the negotiated payment as the tradeoff for purchasing the leased servers, the servers' ownership would be transferred to the ownership of the group.

Ⓒ The group has in August 2017 returned 6 units of the leased assets, where initially each server's monthly lease is at RMB366 thousand (including the VAT), and the two parties have entered into an agreement to revamp to, effective September 1, 2017, each server's monthly lease at RMB360 thousand (including the VAT), and the reset remains the same as the initial contract.

(c) As of December 31, 2018, the future payments for payables on leased were as follows：

| | Total | Financing Expenses | Present Value |
|---|---|---|---|
| Current | | | |
| Up to 1 years | $ 16,508 | $ 625 | $ 15,883 |
| Non-current | | | |
| 1 to 5 years | 16,508 | 625 | 15,883 |
| Total | $ 33,016 | $ 1,250 | $ 31,766 |

G. About Assets leased to others as follows：

The group has in July 2019 signed a leasing contract with a non-stake holder for a one-year production equipment server contract, and the two parties collectively agree to collaborate by means of principle of good faith and mutual benefit to achieve the integrated operating yield. The two parties consent to set the leasing period to span from July 15, 2019 to July 14, 2020. The monthly rent is RMB144,000 (excluding the VAT). The contract was early terminated on December 31, 2019.

**(7) Right-of-use assets and Lease liabilities**

A. Leasing arrangements－lessee

Effective 2019

(c) The Group leases various assets including land, buildings, machinery and equipment, business vehicles. Rental contracts are typically made for periods of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

(d) The carrying amount of right-of-use assets and the depreciation charge are as follows:

| | December 31, 2019 | Jan.1~Dec. 31, 2019 |
|---|---|---|
| | Book value | Depreciation charge |
| Land | $ 30,493 | $ 8,314 |
| Buildings | 49,981 | 48,626 |
| Machinery and equipment | 15,780 | 15,832 |
| Transportation(Business vehicles) | 50,456 | 22,923 |
| Total | $ 146,710 | $ 95,695 |

(c) For the 2019, the additions to right-of-use assets were NT$84,614 thousand.

(d)The information on income and expense accounts relating to lease contracts is as follows:

| | | 2019 |
|---|---|---|
| Items affecting profit or loss | | |
| Interest expense on lease liabilities | $ | 3,796 |
| Expense on short-term lease contracts | $ | 5,301 |

(e) For the 2019, the Group's total cash outflow for leases were NT$94,153 thousand.

B. Lease liabilities

| | 2019 | 2018(Note) |
|---|---|---|
| Current | $ 84,235 | |
| Noncurrent | 67,752 | |
| Total | $ 151,987 | |

(Note)The Company adopted IFRS16 on January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision IFRS 16.

Please refer to Note 6(18) B. for the interest expense of lease liabilities.

C. Leasing arrangements – lessor

Effective 2019

(a) The Group leases various assets including part of office buildings. Rental contracts are typically made for periods within one year. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes.

(b) For the 2019, the Group recognized rent income in the amount of NT$12,669 thousand, based on the operating lease agreement, which does not include variable lease payments.

(8) Intangible assets

The costs of intangible assets, amortization, and the impairment loss of the Group as of and for the ended of December 31, 2019 and 2018 were as follows:

| 2019 | Goodwill | Computer software | Total |
|---|---|---|---|
| **January 1, 2019** | $ - | $ 41,575 | $ 41,575 |
| Addition | - | 25,592 | 25,592 |
| Reclassification | - | - | - |
| Amortization expenses | - | (32,362) | (32,362) |
| Impairment | - | - | - |
| Exchange difference, net | - | (2) | (2) |
| **December 31, 2019** | $ - | $ 34,803 | $ 34,803 |

| 2018 | Goodwill | Computer software | Total |
|---|---|---|---|
| **January 1, 2018** | $ - | $ 41,424 | $ 41,424 |
| Addition | - | 25,996 | 25,996 |
| Reclassification | - | - | - |
| Amortization expenses | - | (25,837) | (25,837) |
| Impairment | - | - | - |
| Exchange difference, net | - | (8) | (8) |
| **December 31, 2018** | $ - | $ 41,575 | $ 41,575 |

| | Goodwill | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Cost | $ 45,533 | $ 45,533 |
| Accumulated impairment | (45,533) | (45,533) |
| Net book value | $ - | $ - |

A. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other noncurrent assets) 2019 and 2018, respectively, were stated as the following items in the comprehensive income statement:

| | 2019 | 2018 |
|---|---|---|
| Operating cost | $ 29,421 | $ 32,776 |
| Operating expense | 33,891 | 33,135 |
| Total amortization expenses | $ 63,312 | $ 65,911 |

B. R&D expenditure

In FY2019 and FY2018, the R&D spending deriving from intangible assets internally developed amounted to NT$710,627 thousand and NT$885,934 thousand, respectively, recognized under the title of "Operating expenses –R&D expenses" in the comprehensive income statement.

C. Goodwill Impairment Charges

Upon the discussion of the management and report to the Board of Directors on March 24 of 2017, the Group has, according to the forecasted cash flow of Allstron Probing Solution, recognized the difference between the investment cost of the original investment day and the net equity value in the goodwill impairment loss with a value of NT$45,533 thousand for the year of 2016.

**(9) Other non-current assets**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Prepayments for equipment | $ 53,311 | $ 51,399 |
| Refundable deposit | 30,749 | 23,820 |
| Deferred Charges | 39,165 | 59,860 |
| Total | $ 123,225 | $ 135,079 |

The costs of Deferred Charges, amortization, and the impairment loss of the Group as of and for the ended of December 31, 2019 and 2018 were as follows:

| | Deferred Charges | | Deferred Charges |
|---|---|---|---|
| **January 1, 2019** | $ 59,860 | **January 1, 2018** | $ 80,984 |
| Addition | 10,394 | Addition | 18,292 |
| Reclassification | - | Reclassification | - |
| Amortization expenses | (30,950) | Amortization expenses | (40,074) |
| Reclassifications | - | Reclassifications | 1,378 |
| Impairment | - | Impairment | - |
| Exchange difference, net | (139) | Exchange difference, net | (720) |
| **December 31, 2019** | $ 39,165 | **December 31, 2018** | $ 59,860 |

## (10) Short-term loan

| Nature | December 31, 2019 Amounts | December 31, 2019 Interest rates | December 31, 2018 Amounts | December 31, 2018 Interest rates |
|---|---|---|---|---|
| Credit loan | $ - | - | $ 200,000 | 0.90% |
| Secured borrowings | 500,000 | 0.89% | 618,000 | 0.89% ~0.90% |
| Total | $ 500,000 | | $ 818,000 | |

A. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note 12(2).

B. Collateral for bank loan.

For bank loans secured by the Group's assets, please see Note 8.

## (11) Other payable accounts

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Payable expenses | $ 584,612 | $ 594,077 |
| Payable employees' remuneration | 46,450 | 35,644 |
| Short-term employee benefits | 49,247 | 33,033 |
| Others (less than 5%) | 28,525 | 16,529 |
| Total | $ 708,834 | $ 679,283 |

## (12) Reserve for liabilities

| | Warranty | | Warranty |
|---|---|---|---|
| At January 1, 2019 | $ 4,859 | At January 1, 2018 | $ 3,210 |
| Provision made/(Payment) | 1,713 | Provision made/(Payment) | 1,649 |
| At December 31, 2019 | $ 6,572 | At December 31, 2018 | $ 4,859 |
| | | | |
| Current | $ 6,572 | Current | $ 4,859 |
| Non-current | - | Non-current | - |
| At December 31, 2019 | $ 6,572 | At December 31, 2018 | $ 4,859 |

The Group's reserve for warranty and liabilities in 2019 and 2018 was primarily related to the sale of semi-conductor production process and testing equipments. The reserve for warranty and liabilities was estimated based on the historical warranty information. The Group expects that the liabilities would be mostly incurred in the following year of the sale.

## (13) Corporate bonds-payable

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| 4th domestic unsecured convertible bonds | $ 1,000,000 | $ 1,000,000 |
| Bonds transferred to common stock | (4,000) | - |
| Less：Convertible corporate bonds repayment due | - | - |
| Less：Buy back from open market | (36,700) | (34,800) |
| Less：Discount of bonds payable | (56,815) | (72,357) |

| | | |
|---|---|---|
| Corporate bonds-payable, net | $ 902,485 | $ 892,843 |
| Current | $ - | $ - |
| Non-current | 902,485 | 892,843 |
| Total | $ 902,485 | $ 892,843 |
| Embedded derivative-Financial (Assets) liability | $ 384 | $ 9,266 |
| Equity element | $ 67,269 | $ 67,683 |

A. In order to repayment of bank loan, the Company issued 4th domestic unsecured convertible corporate bonds upon resolution of the board of directors on May 7, 2018, and upon approval of FSC via its approval letter under Ching-Kuan-Chen-Fa-Tze No. 1070325999 dated July 26, 2018. The issuance conditions are stated as following:

(a) Total issued amount: The Company issued NT$1,000,000 thousand of convertible bonds, each bond had a face value of NT$100 thousand ; issued at 100.1% of the face value, a total of 10 thousand copies were issued.

(b) Duration: 5 years (August 15, 2018~ August 15, 2023)

(c) Coupon rate: 0%

(d) Duration: The day following expiration of three month after the date of issuance (November 16, 2018) until the expiry date (August 15, 2023).

(e) Conversion price and adjustment thereof:

Ⓐ The conversion price at the time of issuance shall be NT$71.50 per share.

Ⓑ In the case of changes in shares of common stock (e.g. capital increase in cash, recapitalization of earnings and recapitalization from capital surplus, et al.); the conversion price shall be adjusted relatively.

Ⓒ The Company's board of directors resolved on August 7, 2019 to authorize the Chairman to issue 4th domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 4th Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of September 10, 2019, the Company's 4th domestic unsecured convertible corporate bonds shall be adjusted as NT$69.2 per share.

(f) Bondholders' put option:

The bondholders may exercise the put option of the convertible bonds earlier on the record date for exercise of put option, namely, August 15, 2021 and August 15, 2022, upon expiration of three years and four years after issuance of the bonds. The bondholders may ask the Company to redeem the convertible bonds at 100% of the book value thereof in cash within 40 days prior to the record date for exercise of put option.

(g) The Company's right of redemption:

Ⓐ From the date following expiration of three month upon offering of the bonds (November 16, 2018) until 40 days prior to expiration of the duration (July 6, 2023), if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.

Ⓑ From the date following expiration of three month upon offering of the bonds (November 16, 2018) until 40 days prior to expiration of the duration (July 6, 2023), if the balance of the outstanding bonds is less than 10% of the initial total issue price, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.

(h) Date and method of repayment of principal:

Except those converted to the Company's common stock by the bondholders according to the Regulations, or those redeemed upon exercise of the put option, or those redeemed by the Company earlier pursuant to the Regulations, or those repurchased by the Company from securities firms for cancellation, the others would be repaid in cash in full amount upon maturity.

B. As of the expiry (December 31, 2019), the accumulation of the 4th domestic unsecured conversion of corporate bonds had been issued 57 thousand shares with face value of NT$4,000 thousand, and recognized NT$3,465 thousand as Capital Surplus-Additional Paid-In Capital-Bond Conversion.

C. The Company analyzed the 4th domestic unsecured convertible corporate bonds according to IFRS No.7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively. The information about convertible corporate bonds in the financial statements is stated as following:

| | August 15, 2018 **(Issuing date)** |
|---|---|
| Total issuing amount of convertible corporate bond | $ 1,001,000 |
| Cost of convertible corporate bond | (5,381) |
| Elements of equity at the time of issuance - conversion option | (70,124) |
| Embedded financial derivatives at the time of issuance | (6,400) |
| Corporate bond payable, net on the issuing date | $ 919,095 |

The elements of equity were stated into capital surplus-stock option at the time of issuance. At the time of issuance, the fair value of embedded non-equity derivative was re-evaluated at the end of every month, which was stated into the "from financial assets and liabilities at fair value through profit or loss ".

The effective interest rate of the 4th unsecured convertible bonds after host contracts separation is 1.6885%.

D. (a) Financial assets and liabilities profit (loss) measured at fair value through profit or loss of the Group as of 2019 and 2018 were NT$8,867 thousand and NT$ (3,200) thousand.

(b) The Group recognized interest expense of convertible bonds were NT$15,155 thousand and NT$5,935 thousand at 2019 and 2018.

E. (a) Till December 31, 2018, the 4th unsecured convertible bonds in the amount of NT$34,800 thousand were repurchased by the company from open market, buy back price is NT$33,030 thousand that is shared to liabilities and equity with difference between book value, is recognized as Form treasury stock transaction NT$368 thousand, recognized in gain on repurchase of convertible bonds NT$1,564 thousand in 2018 (stated as other revenue-others).

(b) For the December 31, 2019, the 4th unsecured convertible bonds in the amount of NT$1,900 thousand were repurchased by the company from open market, buy back price is NT$ 1,802 thousand that is shared to liabilities and equity with difference between book value, is recognized as form treasury stock transaction NT$19 thousand, recognized in gain on repurchase of convertible bonds NT$82 thousand in 2019 (stated as other revenue-others).

### (14) Long-term Loans

| Lender | Nature | Amount | Period | December 31, 2019 |
|---|---|---|---|---|
| Chang Hwa Bank –Chengnei Branch | Secured bank borrowings | $ 1,134,880 | 2019.11.08~2029.10.15 | $ 142,208 |
| Less: Long-term Loans payable-current portion | | | | - |
| Long-term Loans, net | | | | $ 142,208 |
| Interest rates for long-term loans | | | | 0.88% |

| Lender | Nature | Amount | Period | December 31, 2018 |
|---|---|---|---|---|
| Land Bank –East Shichu Branch | Secured bank borrowings | $ 600,000 | 2017.11.28~2020.11.28 | $ 38,150 (Note) |
| Land Bank –East Shichu Branch | Secured bank borrowings | $ 201,100 | 2015.09.30~2020.09.30 | - (Note) |
| Land Bank –East Shichu Branch | Secured bank borrowings | $ 163,000 | 2009.03.02~2022.03.02 | 30,313 |
| Less: Long-term Loans payable-current portion | | | | (29,233) |
| Long-term Loans, net | | | | $ 39,230 |

| | |
|---|---|
| Interest rates for long-term loans | 1.28 %~1.42% |

(Note) The above loan has been repaid in advance.

A. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note 12(2).

B. Collateral for bank loan

For bank loans secured by the Group's assets, please see Note 8.

**(15) Pension Benefits**

A. Defined benefit plan

(a) The Company and its domestic subsidiaries have instituted regulations for the defined pension plan under the "Labor Standards Law" applicable to the years of services of employees before July 1, 2005, which is the day that the new "Labor Pension Act" came into full force, and the following years of services of employees who choose to continue applying the Labor Standard Law upon enforcement of the Labor Pension Act. Employees who meet the retirement requirements will be paid the pension based on their years of service and average salary or wage of the last six months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The Company and its domestic subsidiaries contribute 2% of the total salaries of the employees to the special pension fund account with Bank of Taiwan supervised by the Employee Pension Fund Reserve Supervisory Committee. Until the end of December 31, 2019, the balance of the pension funds contributed to the special pension fund account at Bank of Taiwan was NT$77,272 thousand.

(b) The amount recognized in the balance sheet is stated as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Present value of defined benefit obligation | $ 110,040 | $ 107,279 |
| Fair value of planned assets | (77,272) | (64,752) |
| Net defined benefit liability | $ 32,768 | $ 42,527 |

(c) Changes in the present value of defined benefit obligation:

| | 2019 | 2018 |
|---|---|---|
| Present value of defined benefit obligation, January 1 | $ 107,279 | $ 96,029 |
| Service cost in current period | 5,147 | 5,158 |
| Interest cost | 1,395 | 1,489 |
| Actuarial loss/gain | | |
| Benefit payment-from planned assets | - | (4,128) |
| Actuarial loss (gain) from changes of financial hypotheses | 3,056 | 3,821 |
| Empirical adjustment | (6,837) | 4,910 |
| Present value of defined benefit obligation, December 31 | $ 110,040 | $ 107,279 |

(d) Changes in fair value of planned assets:

| | 2019 | 2018 |
|---|---|---|
| Fair value of planned assets, January 1 | $ 64,752 | $ 60,772 |
| Interest revenue | 870 | 974 |
| Return (loss) on remuneration of planned assets | 2,119 | 1,428 |
| Contribution by employer | 9,531 | 5,706 |
| Benefit payment-from planned assets | - | (4,128) |
| Fair value of planned assets, December 31 | $ 77,272 | $ 64,752 |

(e) Total expenses recognized in comprehensive income statement:

| | 2019 | 2018 |
|---|---|---|
| Service cost in current period | $ 5,147 | $ 5,158 |
| Interest cost of defined benefit obligation | 1,395 | 1,489 |
| Interest revenue from planned assets | (870) | (974) |
| Defined benefit cost stated into income | $ 5,672 | $ 5,673 |

(f) The Bank of Taiwan was commissioned to manage the Fund of the Company's and its domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and Article 6 of the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Any deficits thereof shall be made up by the national treasury upon approval of the competent authority. As the Company was not entitled to participate in operation and management of the Fund, it was impossible for the Company to disclose the classification of fair value of the planned assets in accordance with Paragraph 142 of Article 19 of IAS. For the fair value of the total assets under the Fund on December 31, 2019 and 2018, please see the labor pension fund utilization report published by the government each year.

(g) Actuarial hypotheses about pension are summarized as following: (expressed under weighted average method)

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 1.10% | 1.30% |
| Future salary and benefit level | 2.25%~2.75% | 2.25%~2.75% |

Until December 31, 2019, the weighted average duration of the pension plan has been 13.8~17.5 years.

(h) Analysis of sensitivity

In the calculation of the determined welfare obligation, the Group must make use of judgment and estimate to determine relevant actuarial assumption on the reporting date, including the discount rate and update of future salary. Any changes in the actuarial hypotheses might materially affect the value of the Group's defined benefit obligation materially.

(i) The variance in the estimation of the Group's discount rate and future salary level increase rate from the management will affect the book value of pension benefit obligation in the following manners:

| | **Discount rate** | | **Future raise rate** | |
|---|---|---|---|---|
| | **Increase by 0.25%** | **Decrease by 0.25%** | **Increase by 1.00%** | **Decrease by 1.00%** |
| December 31, 2019 | | | | |
| Effect on defined benefit obligation % | (3.19%) ~(3.49%) | 3.31% ~3.65% | 13.71% ~15.34% | (11.99%) ~(13.05%) |
| Amount of effect on defined benefit obligation | $ (3,801) | $ 3,971 | $ 16,661 | $ (14,218) |
| December 31, 2018 | | | | |
| Effect on defined benefit obligation % | (3.43%) ~(3.58%) | 3.56% ~3.75% | 14.87% ~15.86% | (12.88%) ~(13.44%) |
| Amount of effect on defined benefit obligation | $ (3,821) | $ 3,999 | $ 16,888 | $ (14,347) |

Said analysis of sensitivity refers to the analysis of the effect produced by any change of single hypothesis under the circumstance that the other hypotheses remain unchanged. In practice, a lot of changes in hypotheses might be linked with each other. The analysis of sensitivity adopted the same method used for calculation of net pension liability on the balance sheet.

The methods and hypotheses used by the analysis of sensitivity prepared in the current period are identical with those used in the previous period.

(j) Expected contributions to the defined benefit pension plans of the Group for the next annual reporting period as at December 31, 2019 is NT$3,577 thousand.

B. Defined contribution plans

(a) As of July 1, 2005, the Group instituted the defined contribution retirement plan according to the "Labor Pension Act", applicable to the native employees. The Group shall contribute the amount equivalent to 6% of the monthly salary of respective native employees to the individual pension accounts of the employees at Labor Insurance Bureau, with respect to the labor pension system under the "Labor Pension Act" chosen by employees. Retired employees may claim for pension disbursement in accordance with the status of their individual accounts and the cumulative contribution in the account through monthly payment or in lump sum.

(b) Foreign subsidiaries shall contribute specific ratio of the local employees' total salary, on a monthly basis, as the pension or fund of endowment insurance according to the local government regulations. The pension of each employee shall be arranged and managed by government. Except that the subsidiaries shall be obligated to contribute the fund on a monthly basis, the subsidiaries shall bear no other obligations.

(c) The pension expenses recognized under the Group's defined contributed pension regulations were NT$62,207 thousand and NT$61,095 thousand in 2019 and 2018.

**(16) EQUITY**

A. The Company's outstanding common stock at beginning and ending is reconciled as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance , beginning | 79,901,388 | 79,901,388 |
| Convertible Bonds Transferred To Common Stock | 57,338 | - |
| Balance , ending | 79,958,726 | 79,901,388 |

B. Capital surplus

(a) Pursuant to the R.O.C. Company Law amended in January 2012, capital surplus shall be first used to offset a deficit and then new shares or cash may be allocated based on realized capital surplus subject to shareholdings. Realized capital surplus referred to in the preceding paragraph included the surplus generated from donations and the excess of the issuance price over the par value of capital stock. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital.

(b) The balance of the Company's capital surplus:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note1) | | |
| Common stock premium | $ 210,163 | $ 210,163 |
| Convertible corporate bond conversion premium | 597,406 | 593,941 |
| Treasury Stock Transactions | 58,623 | 58,604 |
| May be used to offset a deficit only (Note2) | | |
| Donation from shareholders | 1 | 1 |
| Invalidated employee shareholding pledging | 27,005 | 27,005 |
| Such capital surplus may not be used for any purpose | | |
| Others-issuance of new shares due to acquisition of shares of another company | 19,858 | 19,858 |
| Stock option (Elements of equity of convertible corporate bonds) | 67,269 | 67,683 |
| Total | $ 980,325 | $ 977,255 |

(Note1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

(Note2) Such type of capital reserve pertains to bequeathing to the accepting shareholders without cash inflow or reclassification of invalidated employee shareholding pledging.

Ⓐ The company issued the first , second and third Domestic unsecured convertible corporate bonds; The company recognized NT$593,941 thousand as paid-in capital in excess of par-common stock and treasury stock transaction NT$8,477 thousand.

Ⓑ The 3rd domestic unsecured conversion of corporate bonds pay off convertible corporate bonds at expiry, in addition to bondholders with converting right not requesting for the conversion to be invalidated, the initially classified "capital reserve – shareholding pledging" balance at NT$27,005 thousand is reclassified as "capital reserve – invalidated shareholding pledging" item.

Ⓒ The group issued last time Domestic unsecured convertible corporate bonds; The company recognized NT$49,759 thousand as paid-in capital in excess of par-common stock.

Ⓓ The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in June 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT$1 thousand.

Ⓔ The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. On June 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT$19,858 thousand on the date of investment, stated as capital surplus-others.

C. Retained earnings

(a) According to the company laws amended in May 2015, employee remuneration and remuneration to directors/supervisors shall not be allocated from earnings any longer. The Company has had the amended Articles of Incorporation resolved and approved by the board of directors on June 16, 2016. Therefore, if the Company has a profit at the year's final accounting, it shall first pay profit-seeking enterprise income tax and make up any losses from past years, and then make contribution of 10% of the balance to the statutory reserve, unless the statutory reserve reaches the amount of the Company paid-in capital, and also make provision/reversal of special reserves pursuant to laws. The residual balance shall be added to undistributed earnings carried from previous years. The Board shall draft a motion for allocation of the residual balance plus the undistributed earnings, and submit the same to a shareholders' meeting to resolve whether shareholder bonus shall be allocated or the earnings shall be retained.

(b) The shareholders' meeting resolved to amend the Company Act of Incorporation as following on June 17, 2011: For the time being, the Company's industrial development is still growing, the dividend policy requires that the board of directors shall draft the motion for allocation of earnings each year and submit the same to a shareholders' meeting for ratification, subject to the Company's present and future investment environments, funding demand, status of competition domestically/overseas and capital budget and by taking care of shareholders' interest, balanced stock dividend and the Company's long-term financial planning into consideration. The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.

(c) Legal reserve

According to the Company Law amended in January 2012, the Company shall contribute 10% from the income after tax as the legal reserve until it is equivalent to the gross capital. When the Company suffers no loss, new shares or cash may be allocated from the legal reserve upon resolution of the shareholders' meeting, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

(d) Special reserve

Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company provided special reserve NT$11,921 thousand to shareholders from earnings 2018 on June 11, 2019.

The Company provided special reserve NT$12,131 thousand to shareholders from earnings 2017 on June 12, 2018.

(e) The Company resolved to allocate the cash dividend, NT$159,803 thousand (NT$ 2 per share) by the shareholders' meetings from earnings 2018 on June 11, 2019.

The Company resolved to allocate the cash dividend, NT$39,951 thousand (NT$0.5 per share) by the shareholders' meetings from earnings 2017 on June 12, 2018.

(f) The information about allocation of retained earning approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(g) For the information about remuneration to employees and remuneration to directors/supervisors, please see Note 6(21).

D. Treasury stock：None.

E. Share-based payment — employee compensation plan

As of December 31, 2019, information on outstanding ESO is shown below: None.

## (17) OPERATING INCOME

A. Operating income

| | 2019 | 2018 |
|---|---|---|
| Revenue from contracts with customers | | |
| Sales revenue | $ 5,267,654 | $ 5,014,543 |
| Processing Fees revenue | 241,894 | 319,237 |
| Others | | |
| Commission revenue | 3,443 | 52,576 |
| Lease revenue | 2,209 | - |
| Total | $ 5,515,200 | $ 5,386,356 |

B. Contract assets and contract liability

The Group recognized the contract assets and contract liability of the revenue from contracts with customers as following:

(a) Contract assets: None.

(b) Contract liability as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Contract liability-current | | |
| Sales revenue received in advance | $ 811,231 | $ 940,903 |
| Total | $ 811,231 | $ 940,903 |

Revenue of the contract liability recognized in the beginning:

| | 2019 | 2018 |
|---|---|---|
| At January 1 | | |
| Revenue recognized in this period | | |
| Sales revenue received in advance transfer to revenue | $ 561,585 | $ 515,709 |
| Total | $ 561,585 | $ 515,709 |

## (18) NON-OPERATING INCOME AND EXPENSES

A. Other gains and losses, net

| | 2019 | 2018 |
|---|---|---|
| Gains (losses) on disposal of property, plant and equipment | $ 1,930 | $ 30,725 |
| Disposal of investment income under equity method | - | 10,941 |
| Net gains (losses) on financial liabilities at fair value through loss | 8,867 | (3,200) |
| Net currency exchange gains (losses) | (15,951) | 25,856 |
| Gains(losses) on lease modification | 20 | - |
| Others | (1,097) | (836) |
| Total | $ (6,231) | $ 63,486 |

The instructions related to disposal of investment income please see Note 6 (5) details.

B. Financial cost

| | 2019 | 2018 |
|---|---|---|
| Interest expense | | |
| Bank borrowings | $ 7,115 | $ 17,896 |
| The convertible bonds | 15,155 | 5,935 |
| Interest of Financial Leasing | 3,796 | 632 |
| subtotal | 26,066 | 24,463 |
| Less: capitalisation of qualifying assets | (892) | (970) |
| Total | $ 25,174 | $ 23,493 |
| Capitalized interest rate | 0.76%~1.63% | 0.91%~1.88% |

(Note) The company and its subsidiaries have elected to apply IFRS 16 by not restating the comparative periods on January 1, 2019.

## (19) Income Tax

A. The Group's income tax expenses (gains) are specified as following:

| | 2019 | 2018 |
|---|---|---|
| Current tax: | | |
| Current tax on profits for the period | $ 100,575 | $ 80,868 |
| Adjustments in respect of prior years | (1,691) | 658 |
| Total current tax | 98,884 | 81,526 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (37,837) | (11,277) |
| Impact of change in tax rate | - | (10,259) |
| Total deferred tax | (37,837) | (21,536) |
| Income tax expense | $ 61,047 | $ 59,990 |

B. The Group recognized Income tax expenses in other comprehensive income are NT$ 0 start from January to December, at 2019 and 2018.

C. The income tax expenses recognized under the title of equity are NT$0 start from January to December, at 2019 and 2018.

D. Relations between income tax expenses (gains) and accounting profit

| | 2019 | 2018 |
|---|---|---|
| Net profit (loss) before tax | $ 489,031 | $ 397,618 |
| Income tax on net profit (loss) before tax calculated at the domestic tax rate applicable in the place where the Company is situated | $ 97,806 | $ 79,523 |
| Tax rate difference effect in foreign jurisdiction | 25,550 | 21,011 |
| Income tax effect included into the items that shall not be recognized pursuant to tax laws | 13,948 | (2,814) |
| Income tax effect on deferred income tax assets/liabilities | (37,837) | (11,277) |
| Changes of foreign exchange rate of deferred income tax assets/liabilities | - | - |
| Unrecognized deferred income tax assets | 13 | 69 |
| Tax-free income | - | - |
| Maximum foreign-tax deduction | - | - |
| Income tax effect on investment credit | (36,742) | (24,362) |
| Imposition of 10% income tax on undistributed earnings | - | 7,441 |
| Income tax effect under minimum tax system | - | - |
| Overestimated (underestimated) income tax in previous year | (1,691) | 658 |
| Impact of change in tax rate | - | (10,259) |
| Total | $ 61,047 | $ 59,990 |

E. Deferred income tax assets and liabilities

(a) Recognized deferred income tax assets and liabilities

| | 2019 | | | | |
|---|---|---|---|---|---|
| | January 1 | Recognized in income statement | Recognized in other comprehensive income | Exchange difference | December 31 |
| **Deferred income tax assets** | | | | | |
| Temporary difference | | | | | |
| Unrealized inventory devaluation and obsolescence losses | $ 51,142 | $ 11,013 | | | $ 62,155 |
| Unrealized net investment income (foreign) | 8,133 | 9,961 | | | 18,094 |
| Unrealized exchange loss | 451 | 5,332 | | | 5,783 |
| Unrealized warranty cost | 972 | 377 | | | 1,349 |
| Expected credit loss | 9,107 | - | | | 9,107 |
| Impairment loss | 12 | 924 | | | 936 |
| Unrealized gain on inter-affiliate accounts | 11,762 | (3,787) | | | 7,975 |
| Tax difference on depreciation expenses | 11,930 | 6,903 | | $ (100) | 18,733 |
| Recognition of pension expenses (excess) | 139 | (20) | | | 119 |
| Employee services and benefits amortized by year | 60 | (20) | | | 40 |
| Loss carry forwards | - | - | | | - |
| Total | $ 93,708 | $ 30,683 | | $ (100) | $ 124,291 |
| **Deferred income tax liabilities** | | | | | |
| Temporary difference | | | | | |
| Unrealized exchange gain | $ (489) | $ (191) | | | $ (680) |
| Unrealized net investment income (foreign) | (9,243) | 8,097 | | | (1,146) |

| | | | | | |
|---|---|---|---|---|---|
| Recognition of pension expenses (deficit) | (4,434) | (752) | | | (5,186) |
| Total | $ (14,166) | $ (7,154) | | | $ (7,012) |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | January1 | Recognized in income statement | Recognized in other comprehensive income | Exchange difference | December31 |
| **Deferred income tax assets** | | | | | |
| Temporary difference | | | | | |
| Unrealized inventory devaluation and obsolescence losses | $ 41,703 | $ 9,439 | | | $ 51,142 |
| Unrealized net investment income (foreign) | 7,018 | 1,115 | | | 8,133 |
| Unrealized exchange loss | 1,740 | (1,289) | | | 451 |
| Unrealized warranty cost | 546 | 426 | | | 972 |
| Expected credit loss | 7,741 | 1,366 | | | 9,107 |
| Impairment loss | 10 | 2 | | | 12 |
| Unrealized gain on inter-affiliate accounts | 13,754 | (1,992) | | | 11,762 |
| Tax difference on depreciation expenses | 13 | 12,046 | | $ (129) | 11,930 |
| Recognition of pension expenses (excess) | 133 | 6 | | | 139 |
| Employee services and benefits amortized by year | 68 | (8) | | | 60 |
| Loss carry forwards | - | - | | | - |
| Total | $ 72,726 | $ 21,111 | | $ (129) | $ 93,708 |
| **Deferred income tax liabilities** | | | | | |
| Temporary difference | | | | | |
| Unrealized exchange gain | $ (278) | $ (211) | | | $ (489) |
| Unrealized net investment income (foreign) | (10,534) | 1,291 | | | (9,243) |
| Recognition of pension expenses (deficit) | (3,779) | (655) | | | (4,434) |
| Total | $ (14,591) | $ 425 | | | $ (14,166) |

(b) Unrecognized deferred income tax assets

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Loss carry forwards | $ - | $ - |
| Investment credit | - | - |
| Amount of unrecognized deferred income tax assets | $ - | $ - |

According to the Income Tax Act, taxation may be made on its net income after deduction of losses incurred in the preceding ten years as verified and determined by the local collection authority-in-charge from the current income. Said items were not recognized as deferred income tax assets, because it is still uncertain whether said companies are not likely to have sufficient taxable income to cover the temporary difference.

(c) Unrecognized deferred income tax liabilities

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Taxable temporary difference | $ - | $ - |
| Amount of unrecognized deferred income tax liabilities | $ - | $ - |

F. The investment credit tax on deferred income tax assets which has been recognized by the Company before December 31, 2019 shall be credited by the following deadline:

| Item | Total credit | Deducted amount | Credited balance in current period | Balance to be credited | Last year of credit |
|---|---|---|---|---|---|
| R&D expenditure (projected) in 2019 | $ 58,278 | $ - | $ 36,742 | $ - | (non-deferred) |
| | $ 58,278 | $ - | $ 36,742 | $ - | |

(Note) According to the "Regulations Governing Investment Credit Applicable to a Company's R&D Expenditure" promulgated on November 8, 2010, the tax credit shall be no more than 30% of the income tax payable in the year and prohibited from being deferred until next year.

G. Authorization of income tax:

The status of authorization of the Group's tax return in the territories of Taiwan:

| | Year |
|---|---|
| MPI Corporation | 2017 |
| Chain-Logic International Corp. | 2017 |
| Allstron Corp | 2017 |

H. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company’s applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has accessed the impact of the change in income tax rate. Besides, the tax rate of undistributed earnings in 2018 was reduced from 10% to 5%.

**(20) <u>Earnings Per Common Share</u>**

A. Basic EPS

The basic EPS is calculated based on the income vested in the Company's common stock holders dividing by the weighted average number of outstanding common stock.

B. Diluted EPS

The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the weighted average number of outstanding common stock.

C. The Company's basic EPS and diluted EPS are calculated as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Amount after tax | Weighted average number of outstanding common stock (thousand shares) | EPS (NT$) | Amount after tax | Weighted average number of outstanding common stock (thousand shares) | EPS (NT$) |
| **Basic EPS** | | | | | | |
| Net profit attributed to the Company's common stock shareholders | $ 428,370 | 79,913 | $ 5.36 | $334,562 | 79,901 | $ 4.19 |
| **Diluted EPS** | | | | | | |
| Net profit attributed to the Company's common stock shareholders | $ 428,370 | 79,913 | | $334,562 | 79,901 | |
| Effect of all potential diluted common stocks (Note) | | | | | | |
| 4th domestic unsecured convertible corporate bond | - | 13,863 | | - | 13,500 | |
| Employee stock bonus | - | 556 | | - | 649 | |
| Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks | $ 428,370 | 94,332 | $ 4.54 | $334,562 | 94,050 | $ 3.56 |

For the details about capital increase, please see Note 6(16).

## (20) Employee benefits, depreciation, depletion and amortization expenses are summarized as follow

| Nature \ Function | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Operation cost | Operation expense | Total | Operation cost | Operation expense | Total |
| Employee benefit expense | | | | | | |
| Wages and salaries | 918,734 | 747,494 | 1,666,228 | 855,579 | 713,359 | 1,568,938 |
| Labor and health insurance expense | 55,167 | 39,950 | 95,117 | 57,746 | 50,401 | 108,147 |
| Pension costs | 38,302 | 29,577 | 67,879 | 37,446 | 29,322 | 66,768 |
| Director remuneration | - | 6,200 | 6,200 | - | 6,002 | 6,002 |
| Other personnel expense | 93,220 | 24,460 | 117,680 | 93,060 | 29,125 | 122,185 |
| Depreciation | 405,890 | 115,019 | 520,909 | 362,128 | 114,246 | 476,374 |
| Depletion | - | - - | - | - | - - | - |
| Amortization | 29,421 | 33,891 | 63,312 | 32,776 | 33,135 | 65,911 |

(Note) The other employee benefit expenses including meal expenses, overtime pay and workers' benefits.

A. According to the Company's existing articles of incorporation, the Company shall allocate remuneration to employees and remuneration to directors/supervisors when allocating the earnings. For the details about capital increase, please see Note 6(15).

B. (a) The original articles of incorporation are as follows：

Where the Company retains income before tax after the account settlement, it shall allocate 5%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.

(b)The Company has approved the motion for amendments to the Articles of Incorporation on June 12, 2018:

Where the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.

The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.

Employees' remuneration may be paid in the form of stock or in cash, and can be paid to employees of affiliated companies that satisfy certain criteria.

C. The Company estimated the remuneration to employees was NT$43,950 thousand and NT$34,144 thousand, respectively, in 2019 and 2018, and the remuneration to directors/supervisors NT$9,920 thousand and NT$9,603 thousand. Said values were stated into salary expenses. The values were estimated based on the earnings gained until the current period (this year).

D. The remuneration to employees and directors/supervisors 2018 resolved to be allocated at the shareholders' meeting on June 11, 2019 by the Board of Directors meeting were NT$34,144 thousand and NT$9,603 thousand, respectively, identical with that recognized in the financial statement 2018, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2019.

E. The remuneration to employees and directors/supervisors 2017 resolved to be allocated at the shareholders' meeting on June 12, 2018 by the Board of Directors meeting were NT$9,323 thousand and NT$0, respectively, identical with that recognized in the financial statement 2017, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2018.

F. The information about remuneration to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

**(22) Supplemental cash flow information**

A. Investing activities paid in cash in part only:

| | 2019 | 2018 |
|---|---|---|
| Purchase of fixed assets | $ 371,793 | $ 236,313 |
| Add: opening balance of payable on equipment | 22,722 | 87,846 |
| Add: opening balance of lease obligations payable | - | 48,688 |
| Less: ending balance of payable on equipment | (65,720) | (22,722) |
| Less: ending balance of lease obligations payable | - | (31,766) |
| Cash paid during the period | $ 328,795 | $ 318,359 |

B. Financing activities not affecting cash flow:

| | 2019 | 2018 |
|---|---|---|
| Convertible bonds being converted to capital stocks | $ 573 | $ - |

## 7. Transactions with related parties

(1) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

(2) The names and relationship of related parties

| Names of related parties | Relationship with the Company |
|---|---|
| MICRONICS JAPAN CO.,LTD.(MJC) | The parent company of associates |
| MJC Electronics Corporation(MEC) | A subsidiary of MJC |
| MJC Microelectronics Kunshan Co., Ltd. (MMK) | Associates(Disposed in March , 2018) |

(3) Important transactions with related parties

The balance and transaction between the Company and its subsidiaries have been derecognized from the consolidated financial statements and were not disclosed accordingly. The details about transactions between the Group and other related parties are disclosed as following:

A. Operating revenue

The Group's sales values to related parties are stated as follows:

| Type | 2019 | 2018 |
|---|---|---|
| **Sale of products:** | | |
| -Essential related party | | |

| | | |
|---|---|---|
| MEC | - | 31 |
| **Sale of labor services:** | | |
| - Essential related party | | |
| MJC | - | 45,590 |
| Total | $ - | $ 45,621 |

The price of the Group's sale to related parties was not significantly different from the Group's general selling price.

B. Purchase

The Group's purchase values to related parties: None.

C. Accounts receivable -related parties

The Group's receivable accounts-related parties: None.

D. Accounts payable -related parties

The Group's payable accounts-related parties: None.

E. Exchange of property

(a) Acquisition of property, plant, and equipment: None.

(b) Disposition of property, plant, and equipment: None.

(c)Sell long-term investments to related parties for using equity method:

at 2019: None

| | | 2018 | | |
|---|---|---|---|---|
| Names of related parties | Investee company | Sales | Book value | Gain on sell of investments |
| -Essential related party-MJC | MMK | $ 82,710 | $ 71,302 | $ 11,408 |

F. Financing from related party (stated as other accounts payable -related party)

The Group's loans from related parties are stated as follows: None.

G. Purchase of labor services from related parties: None.

H. Others

(a) Payment on behalf of others (stated as other current assets): None.

(b) Advance Receipts

| Type | 2019 | 2018 |
|---|---|---|
| -Essential related party | | |
| - MEC | $ - | $ 265 |

(c) Receipts under custody (stated as other current liabilities) ：None.

(d) Manufacturing expenses (stated as operating cost) ：None.

(e) Selling expenses：

| Type | Nature | 2019 | 2018 |
|---|---|---|---|
| Associates | Other expenses | $ - | $ 206 |

(f) Management expenses：None.

(g) Research and development expense：None.

(h) Lease：None.

(i) Other revenue：None.

(3) Information about remuneration to the management

Information about remuneration to the Group's management is stated as follows:

| | 2019 | 2018 |
|---|---|---|
| Salary and other short-term employee benefits | $ 9,517 | $ 9,581 |
| Resignation benefits | - | - |
| Retirement benefits | - | - |
| Other long-term benefits | - | - |
| Share-based payments | - | - |
| Total | $ 9,517 | $ 9,581 |

Said remuneration to the management is decided by the Remuneration Committee subject to personal performance and market trend. For the relevant information, please see the annual report of the general shareholders' meeting.

## 8. Pledged assets

The following assets have been provided to the Group as the collaterals for bank loans, import business tax, sale commitment and notes payable. The book value thereof is stated as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Land | $ 770,963 | $ 770,963 |
| Buildings | 831,450 | 857,912 |
| Pledged bank deposit (stated as other current assets) | 4,321 | 6,096 |
| Pledged fixed deposit (stated as other current assets) | 15,691 | 3,579 |
| Total | $ 1,622,425 | $ 1,638,550 |

## 9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: None.

(2) Commitment:

A. Balance of unused letter of credit issued by the Group, guarantee money paid and service charges: None.

B. The outstanding amount under the purchase orders signed for the Group's purchase of equipment is stated as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Purchases of property, plant and equipment | $ 478,144 | $ 2,012 |

C. The Group's significant long-term rent:

Effective 2018

(a) The Group rented the land lots in Tainan Science Park from Southern Taiwan Science Park Administration for construction of Luchu 1st Plant and 2nd Plant. According to the lease contract, the lease of the land shall persist for no more than 20 years, and the lease shall expire on December 31, 2024. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Group is prohibited from claiming the continuance of lease or irregular lease with any excuse. In the case of land price re-set by the government pursuant to laws, the rent shall be adjusted and collected based on the re-set land price.

(b) The Company rented the land at Taiho Section, Zhubei City, Hsinchu Country from a non-related party for parking lots. The lease shall expire on May 14, 2022. The Company shall surrender the land to the lessor upon expiration of termination of the lease contract.

(c) The Group rented the land and the construction at Zhonghe Street, Zhubei City, Hsinchu Country from a non-related party for parking lots and plants. The lease period was extended until August 31, 2019. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

(d) The Group rented the land and the construction at Guangfu Rd, Hukou Township, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on September 30, 2021. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

(e) The Group rented the land and the construction at Wujin Hi-Tech Industrial Zone from a non-related party for parking lots. The lease shall expire on December 15, 2019. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Group is prohibited from claiming the continuance of lease or irregular lease with any excuse.

(f) The Group rented the land and the construction at located on the Site from a non-related party for business. The lease shall be effective from May 1, 2017 to April 30, 2022. The lease term is sixty months.

(g) The group rented the construction at Jiangsu Suzhou Industrial Park from a non-related party for business. The lease shall expire on May 31, 2022. Upon expiration of the lease, the group should notify landlord whether renewal in writing six months ago at maturity. The lease term is sixty months.

The income expenses for said two lots of long-term operating leased were stated as NT$23,897 thousand in 2018 The future payable rent for important long-term operating lease is stated as follows:

| | December 31, 2018 |
|---|---|
| Less than one year | $ 22,609 |
| One year to five years | 49,183 |
| More than five years | 4,683 |
| Total | $ 76,475 |

## 10. Significant disaster loss: None.

## 11. Significant subsequent events: None.

## 12. Others

(1) Capital management

The Group's capital management objective is intended to protect the Group's continued operation and ensure maintenance of well-founded credit ratings and optimal capital structure to reduce capital cost, in order to support the enterprise's operation and maximization of shareholders' return. The Group manages and adjusts the capital structure subject to the economic condition. The Group might adjust the stock dividend to be paid, refund of capital, issuance of new shares or realization of assets to reduce liabilities, in order to maintain and adjust the capital structure.

The Group controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Group maintained the same strategy in 2019 as that in 2018, dedicated to maintaining the debt/equity ratio less than 70%~120%. The Company's debt ratios on December 31, 2019, and 2018 are stated as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total liabilities | $ 3,799,056 | $ 4,073,267 |
| Total net worth | 4,379,845 | 4,116,931 |
| Debt/equity ratio | 87% | 99% |

(2) Financial instruments by category

A. The financial instruments of the group are stated as follows:

(a) Financial assets: Including financial assets measured at fair value through profit, financial assets at amortized cost, cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid and other financial assets.

(b) Financial liabilities: Including financial liabilities measured at fair value through profit, short-term loans, notes payable, accounts payable, other payables, lease liabilities, bonds payable(including current portion), long-term borrowings(including current portion), guarantee deposits received and other financial liabilities.

B. Risk management policies

(a) The Group's financial risk management aims to manage the market risk, credit risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.

(b) The Group has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Group shall strictly comply with the requirements related to financial risk management defined by the Company.

C. Significant financial risks and degrees of financial risks

(a) Market risk

The Group's market risk arises from market price fluctuation resulting in fluctuation of the fair value or cash flow of financial instruments. The market risk primarily includes foreign exchange risk, interest rate risk and other pricing risks.

Practically, few single risk variances would change independently. Additionally, changes of various risk variances are generally correlative to each other. Notwithstanding, the sensitivity analysis of the following risks does not take the interaction of related risk variances into consideration.

Ⓐ Foreign exchange risk

The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognized assets.

The Group's receivable accounts denominated in foreign currency are identical with payable accounts denominated in foreign currency in some currencies and, therefore, the equivalent positions would produce the hedging effect naturally. Considering that said natural hedging did not meet the hedging accounting policy, the Group did not adopt the hedging accounting policy. Further, the net investment in foreign operations was identified as strategic investment. Therefore, the Company did not adopt any hedging policy against it.

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Group's income and equity. The Group's foreign exchange risk arises primarily from fluctuation in the foreign exchange rate of USD, Japanese Yen, Euro and RMB.

The Group's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or Won). Therefore, the Company would be subject to the effect produced by fluctuation in foreign exchange rate. The information about assets denominated in foreign currency exposed to significant effect produced by fluctuation in foreign exchange rate is stated as follows:

| | December 31,2019 | | | | |
|---|---|---|---|---|---|
| | **Currency unit** | **Amount in foreign currency (thousand dollars)** | **Applicable foreign exchange rate, ending (Dollar)** | **Book value (NTD) (thousand dollars)** | |
| **Financial assets** | NTD/USD | $ 32,070 | 29.966 | $ | 961,023 |
| | NTD/JPY | $ 2,183 | 0.39736 | $ | 867 |
| | NTD/EUR | $ 2,026 | 33.524 | $ | 67,931 |
| | NTD/RMB | $ 46,633 | 4.4294 | $ | 206,558 |
| | NTD/KRW | $ 5,188 | 0.0262 | $ | 135 |
| | NTD/HKD | $ 11 | 3.795 | $ | 41 |
| | NTD/SGD | $ 18 | 22.155 | $ | 406 |
| | NTD/MYR | $ 18 | 7.033 | $ | 126 |
| | NTD/THB | $ 2 | 0.9752 | $ | 2 |
| | NTD/CHF | $ 1 | 30.72 | $ | 41 |
| | NTD/GBP | $ 112 | 39.37872 | $ | 4,435 |
| | NTD/INR | $ 9 | 0.4164 | $ | 4 |
| | NTD/PHP | $ 90 | 0.5847 | $ | 53 |
| **Financial liabilities** | NTD/USD | $ 6,153 | 30.589 | $ | 188,232 |
| | NTD/JPY | $ 24,880 | 0.2782 | $ | 6,920 |
| | NTD/EUR | $ 778 | 33.805 | $ | 26,312 |
| | NTD/RMB | $ 2,007 | 4.417 | $ | 8,865 |

| | | | | |
|---|---|---|---|---|
| | NTD/GBP | $ 5 | 39.58 | $ 207 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Currency unit** | **Amount in foreign currency (thousand dollars)** | **Applicable foreign exchange rate, ending (Dollar)** | **Book value (NTD) (thousand dollars)** |
| **Financial assets** | NTD/USD | $ 24,789 | 30.684 | $ 760,645 |
| | NTD/JPY | $ 6,382 | 0.27810 | $ 1,774 |
| | NTD/EUR | $ 648 | 35.109 | $ 22,778 |
| | NTD/RMB | $ 30,177 | 4.4511 | $ 134,323 |
| | NTD/KRW | $ 5,255 | 0.02775 | $ 145 |
| | NTD/HKD | $ 15 | 3.863 | $ 59 |
| | NTD/SGD | $ 12 | 22.355 | $ 276 |
| | NTD/MYR | $ 5 | 7.112 | $ 36 |
| | NTD/THB | $ 2 | 0.9186 | $ 2 |
| | NTD/CHF | $ 1 | 30.98 | $ 41 |
| | NTD/GBP | $ 1 | 38.73 | $ 41 |
| | NTD/INR | $ 9 | 0.4348 | $ 4 |
| | NTD/PHP | $ 15 | 0.5771 | $ 9 |
| **Financial liabilities** | NTD/USD | $ 3,442 | 30.786 | $ 105,987 |
| | NTD/JPY | $ 40,610 | 0.2801 | $ 11,374 |
| | NTD/EUR | $ 554 | 37.732 | $ 20,924 |
| | NTD/RMB | $ 519 | 4.675 | $ 2,430 |
| | NTD/SGD | $ 1 | 22.567 | $ 27 |

In consideration of the Group's multiple functional currency types, the information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) was NT$(15,951) thousand and NT$25,856 thousand in 2019 and 2018.

Ⓑ Cash flow and fair value interest rate risk

The interest rate risk arises when the fluctuation of market interest rate results in fluctuation in fair value of financial instruments or in future cash flow. The Group's interest rate risk arises primarily from the loan with floating interest rate.

The Group maintained adequate portfolio with fixed and floating interest rates to manage the interest rate risk.

Ⓒ Pricing risk

Due to the fact that in the investment held by the Group indicated in the individual balance sheet, the Group did not hold the financial assets including equity instruments. Therefore, the Group did not suffer significant pricing risk.

Ⓓ Other risks over market value

In addition to meeting expected consumption and sale needs, the Group did not sign any product contract which did not apply net settlement.

Ⓔ Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on December 31, 2019 and 2018 is stated as following:

**December 31,2019**

| Primary risk | Range of change | Sensitivity of income |
|---|---|---|
| Foreign exchange risk risk | Fluctuation in foreign exchange rate+/- 3% | +/-30,345 thousand |
| Interest rate risk | Loan with floating interest rate +/- 0.25% | +/-1,606 thousand |

**December 31, 2018**

| Primary risk | Range of change | Sensitivity of income |
|---|---|---|
| Foreign exchange risk risk | Fluctuation in foreign exchange rate+/- 3% | +/-23,379 thousand |
| Interest rate risk | Loan with floating interest rate +/- 0.25% | +/-2,216 thousand |

(b) Credit risk

Ⓐ Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income.

Ⓑ The group set up the management of credit risk by group perspective. According to the loan policy expressly defined internally in the Group, each business dept. Within the Group shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers’ credit risk, including the unearned accounts receivable and undertaken transactions. The Group also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.

Ⓒ For the year ended December 31, 2019 and 2018, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart’s failure to perform contract.

Ⓓ The Group's Finance Dept. Manages the credit risk over the deposits in banks and other financial instruments according to the Group's policy. The Group’s trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.

Ⓔ Guarantee

According to the Group's policy, the Group may only make financial guarantee for the subsidiaries wholly owned by the Group. Before December 31, 2019 and 2018, the Group has never made any endorsements/guarantees.

Ⓕ The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

Ⓖ The Group in line with credit risk management procedure, when the counterparty of transaction has financial difficulties, business accidents, restrictions on the acceptance of orders due to legal restrictions, refunds of company bills and any factors (such as fires, earthquakes and natural disasters). A default is considered to have occurred in the event that the possibility of recovering the receivable is very low, the default has occurred.

Ⓗ The Group classifies customer’s notes receivable, accounts receivable, contract assets and rents receivable in accordance with geographic area, product types, credit rating of customer, collaterals, credit risk on trade and customer types. The Group applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

Ⓘ The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

Ⓙ The Group used the foreseeable of Taiwan Institute of Economic

Research boom observation report to adjust historical and timely information to assess the loss allowance of notes receivable and accounts receivable. The group use provision matrix to estimate expected credit loss under the provision matrix basis. The provision matrix basis based on historical default rates observed during the lifetime of accounts receivable to adjust. On each reporting day, the Group updated the observed historical default rates and analyzed changes. On December 31, 2019 and 2018, the group expected credit loss rate during the lifetime is stated as follow:

| | **Notes Receivable** | **Accounts Receivable** | | | | | |
|---|---|---|---|---|---|---|---|
| | dishonoured check | Without past due | 1~90 days | 91 to 180 days | 181 to 360 days | 1 to 2 years | More than 2 year |
| Expected loss rate | 100% | 0% | 7% | 15% | 25% | 50% | 100% |

Ⓚ The Group grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of loss allowances provided for the Group’s impairment on receivable accounts and account age analysis on loans, please see Note 6(3).

(c) Liquidity risk

Ⓐ The liquidity risk arises when the Group fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Group managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable loss or impairment on the Group's goodwill.

Ⓑ The Group's will call the management meeting periodically to assist Financial Accounting Dept. Control the need for cash flow and the optimal investment return in cash. Generally, the Group will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Group's loan totaled NT$2,592,672 thousand on December 31, 2019.

Ⓒ The following table refers to the non-derivative financial liabilities and grouped subject to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Group did not hold derivative financial liabilities.

| | December 31,2019 | | | |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | **Within 1 year** | **1~2 years** | **More than 2 years** | **Total** |
| Short-term loan | $ 500,000 | $ - | $ - | $ 500,000 |
| Payable accounts (including related party) | 392,767 | - | - | 392,767 |
| Other payable accounts (including related party) | 774,554 | - | - | 774,554 |
| Lease liabilities | 84,235 | 67,752 | - | 151,987 |
| Long-term loan (including the current portion) | - | - | 142,208 | 142,208 |
| Corporate bond payable | - | - | 902,485 | 902,485 |
| Total | $ 1,751,556 | $ 67,752 | $ 1,044,693 | $ 2,864,001 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | **Within 1 year** | **1~2 years** | **More than 2 years** | **Total** |
| Short-term loan | $ 818,000 | $ - | $ - | $ 818,000 |
| Payable accounts (including related party) | 484,702 | - | - | 484,702 |
| Other payable accounts (including related party) | 702,005 | - | - | 702,005 |
| Long-term loan (including the current portion) | 29,233 | 29,233 | 9,997 | 68,463 |
| Corporate bond payable | - | - | 892,843 | 892,843 |
| Rent payable | 15,883 | 15,883 | - | 31,766 |
| Total | $ 2,049,823 | $ 45,116 | $ 902,840 | $ 2,997,779 |

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Ⓐ Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Amarket is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Ⓑ Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group’s investment in financial products and corporate bonds is included in Level 2.

Ⓒ Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

Ⓐ Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, Pledged Deposit, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

**December 31, 2019**

| | Book value | Fair value Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets | - | - | - | - |
| Financial liabilities | | | | |
| Bonds payable (including current portion) | $ 902,485 | - | $ 902,485 | - |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Book value | Fair value Level 1 | Level 2 | Level3 |
| Financial assets | - | - | - | - |
| Financial liabilities | | | | |
| Bonds payable (including current portion) | $ 892,843 | - | $ 892,843 | - |

ⒷThe methods and assumptions of fair value estimate are as follows:

Corporate bond payable: The cash flow expected to be paid is measured by the present value discounted of the market interest rate on the balance sheet date.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

ⒶThe Group measured at fair value by level on the basis of the assets and liabilities:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Book value | Fair value **Level** 1 | **Level** 2 | **Level** 3 |
| **Assets** | | | | |
| Recurring fair value measurements | - | - | - | - |
| Non-recurring fair value measurements | - | - | - | - |
| **Liabilities** | | | | |
| Recurring fair value measurements | | | | |
| Financial liabilities at fair value through profit or loss－non-current convertible bonds option | $ 384 | - | $ 384 | - |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Book value | Fair value Level 1 | **Level** 2 | **Level** 3 |
| **Assets** | | | | |
| Recurring fair value measurements | - | - | - | - |
| Non-recurring fair value measurements | - | - | - | - |
| **Liabilities** | | | | |
| Recurring fair value measurements | | | | |
| Financial liabilities at fair value through profit or loss－non-current convertible bonds option | $ 9,266 | - | $ 9,266 | - |

Ⓑ The methods and assumptions of fair value estimate are as follows:

Convertible bonds option

Valuation techniques and inputs applied for Level 2 fair value measurement

| Financial instruments | Instruments and inputs |
|---|---|
| Convertible bonds option | Binomial tree valuation model：<br>Evaluated by the observable of duration, conversion price, volatility, risk-free interest rate, risk discount rate, and liquidity risk at the balance sheet date. |

D. There were no transfer between **Level** 1 and **Level** 2 for the year ended December 31, 2019 and 2018.

## 13. Disclosures of Notes

(1) Information about important transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Group shall also disclose the information about important transactions:

| No. | Contents | January~December 2019 |
|---|---|---|
| 1 | Loans to others | None |
| 2 | Endorsement/guarantees made for others | None |
| 3 | Marketable securities-ending | None |
| 4 | Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital in the current period. | None |
| 5 | Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital. | None |
| 6 | Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital. | None |
| 7 | Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital. | None |
| 8 | Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital. | None |
| 9 | Transactions of derivative instruments. | None |
| 10 | Business relationship and important transactions between parent company and subsidiaries. | Attached table 1 |

Attached table 1：Business relationship and important transactions between parent company and subsidiaries

a. 2019

| No. | Trader | Trading counterpart | Affiliation | Status of transaction |
|---|---|---|---|---|

| (Note 1) | | | with trader (Note 2) | Title | Amount | Trading terms and conditions | To consolidated operating revenue or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | MPI Corporation | Chain-Logic International Corp. | 1 | Sales revenue | $ 52,402 | Note 4 | 1% |
| | | | | Receivable accounts | $ 18,792 | Note 6 | - |
| | | | | Advance sale receipts | $ 12,906 | Note 4 | - |
| | | | | Other receivable accounts | $ 1,192 | Note 8 | - |
| | | | | Rent revenue | $ 3,973 | Note 7 | - |
| | | | | Administrative and general expenses – other expenses, less | $ 13 | Note 7 | - |
| | | | | Other gains (losses) | $ 458 | Note 4 | - |
| 0 | MPI Corporation | Lumitek (Changchou) Co. Ltd. | 1 | Sales revenue | $ 1,759 | Note 4 | - |
| | | | | Receivable accounts | $ 480 | Note 6 | - |
| | | | | Other revenue | $ 17,147 | Note 4 | - |
| | | | | Other receivable accounts | $ 14,354 | Note 8 | - |
| 0 | MPI Corporation | MPI AMERICA INC. | 1 | Sales revenue | $ 418,689 | Note 4 | 8% |
| | | | | Receivable accounts | $ 232,124 | Note 6 | 3% |
| | | | | Advance sale receipts | $ 28,311 | Note 4 | - |
| | | | | Others revenue | $ 8,063 | Note 4 | - |
| 0 | MPI Corporation | MPI (SUZHOU) CORPORATION | 1 | Sales revenue | $ 209,987 | Note 4 | 4% |
| | | | | Receivable accounts | $ 208,057 | Note 6 | 3% |
| | | | | Other receivable accounts | $ 41,701 | Note 8 | 1% |
| | | | | Other revenue | $ 25,869 | Note 4 | - |
| 1 | Chain-Logic International Corp. | MPI Corporation | 2 | Sales revenue | $ 11,308 | Note 4 | - |
| | | | | Receivable accounts | $ 3,635 | Note 6 | - |
| | | | | Revenue from commission | $ 58,226 | Note 5 | 1% |
| | | | | Receivable Commission | $ 20,721 | Note 6 | - |
| | | | | Other receivable accounts | $ 186 | Note 5 | - |
| | | | | Other revenue | $ 568 | Note 4 | - |
| 1 | Chain-Logic International Corp. | Lumitek (Changchou) Co. Ltd. | 3 | Sales revenue | $ 302 | Note 4 | - |
| | | | | Receivable accounts | $ 163 | Note 6 | - |
| 1 | Chain-Logic International Corp. | MEGTAS CO.,LTD. | 3 | Revenue from commission | $ 2,724 | Note 5 | - |
| | | | | Receivable Commission | $ 4 | Note 6 | - |
| 1 | Chain-Logic International Corp. | MPI (SUZHOU) CORPORATION | 3 | Sales revenue | $ 10,392 | Note 4 | - |
| | | | | Receivable accounts | $ 8,700 | Note 6 | - |
| | | | | Advance sale receipts | $ 518 | Note 4 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1 | Chain-Logic International Corp. | MPI AMERICA INC. | 3 | Sales revenue | $ 11 | Note 4 | - |
| 2 | MEGTAS CO.,LTD. | MPI Corporation | 2 | Sales revenue | $ 120 | Note 4 | - |
| 2 | MEGTAS CO.,LTD. | Chain-Logic International Corp. | 3 | Sales revenue<br>Receivable accounts | $ 2,806<br>$ 325 | Note 4<br>Note 6 | -<br>- |
| 2 | MEGTAS CO.,LTD. | MPI (SUZHOU) CORPORATION | 3 | Sales revenue<br>Receivable accounts | $ 2,225<br>$ 298 | Note 4<br>Note 6 | -<br>- |
| 3 | MPI (SUZHOU) CORPORATION | MPI Corporation | 2 | Sales revenue - maintenance<br>Revenue from commission<br>Receivable Commission | $ 17,877<br>$ 15,089<br>$ 1,598 | Note 4<br>Note 5<br>Note 6 | -<br>-<br>- |
| 3 | MPI (SUZHOU) CORPORATION | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | 3 | Sales revenue | $ 8,556 | Note 4 | - |
| 3 | MPI (SUZHOU) CORPORATION | Chain-Logic International Corp. | 3 | Sales revenue<br>Receivable accounts | $ 22<br>$ 23 | Note 4<br>Note 6 | -<br>- |
| 3 | MPI (SUZHOU) CORPORATION | Lumitek (Changchou) Co. Ltd. | 3 | Sales revenue<br>Receivable accounts | $ 84<br>$ 41 | Note 4<br>Note 6 | -<br>- |
| 4 | MPI AMERICA INC. | MPI Corporation | 2 | Sales revenue<br>Other receivable accounts | $ 238<br>$ 216 | Note 4<br>Note 5 | -<br>- |
| 5 | Lumitek (Changchou) Co. Ltd. | MPI (SUZHOU) CORPORATION | 3 | Sales revenue | $ 109 | Note 4 | - |

b. 2018

| No. (Note 1) | Trader | Trading counterpart | Affiliation with trader (Note 2) | Status of transaction | | | |
|---|---|---|---|---|---|---|---|
| | | | | Title | Amount | Trading terms and conditions | To consolidated operating revenue or total assets (Note 3) |
| 0 | MPI Corporation | Chain-Logic International Corp. | 1 | Sales revenue | $ 28,694 | Note 4 | 1% |
| | | | | Receivable accounts | $ 14,427 | Note 6 | - |
| | | | | Advance sale receipts | $ 2,777 | Note 4 | - |
| | | | | Other receivable accounts | $ 1,055 | Note 8 | - |
| | | | | Rent revenue | $ 3,823 | Note 7 | - |
| | | | | Administrative and general expenses – other expenses, less | $ 37 | Note 7 | - |
| | | | | Other gains (losses) | $ 529 | Note 4 | - |
| 0 | MPI Corporation | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | 1 | Sales revenue | $ 1,703 | Note 4 | - |
| | | | | Receivable accounts | $ 811 | Note 6 | - |
| 0 | MPI Corporation | MEGTAS CO.,LTG | 1 | Interest revenue | $ 52 | Note 9 | - |
| 0 | MPI Corporation | Lumitek (Changchou) Co. Ltd. | 1 | Sales revenue | $ 5,306 | Note 4 | - |
| | | | | Receivable accounts | $ 64,617 | Note 6 | 1% |
| | | | | Other gains (losses) | $ 15,001 | Note 4 | - |
| | | | | Other receivable accounts | $ 12,317 | Note 8 | - |
| 0 | MPI Corporation | MPI AMERICA INC. | 1 | Sales revenue | $ 421,834 | Note 4 | 8% |
| | | | | Receivable accounts | $ 190,159 | Note 6 | 2% |
| | | | | Advance sale receipts | $ 5,485 | Note 4 | - |
| | | | | Others revenue | $ 2,712 | Note 4 | - |
| 0 | MPI Corporation | MPI (SUZHOU) CORPORATION | 1 | Sale revenue | $ 75,467 | Note 4 | 1% |
| | | | | Receivable accounts | $ 41,457 | Note 6 | 1% |
| | | | | Other receivable accounts | $ 14,930 | Note 8 | - |
| | | | | Other gains (losses) | $ 6,631 | Note 4 | - |
| 1 | Chain-Logic International Corp. | MPI Corporation | 2 | Sale revenue | $ 10,820 | Note 4 | - |
| | | | | Receivable accounts | $ 3,961 | Note 6 | - |
| | | | | Revenue from commission | $ 55,025 | Note 5 | 1% |
| | | | | Receivable Commission | $ 98,658 | Note 6 | 1% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Other receivable accounts | $ 111 | Note 8 | - |
| 1 | Chain-Logic International Corp. | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | 1 | Sale revenue | $ 25 | Note 4 | - |
| 1 | Chain-Logic International Corp. | Lumitek (Changchou) Co. Ltd. | 3 | Sale revenue<br>Receivable accounts<br>Advance sale receipts | $ 402<br>$ 93<br>$ 27 | Note 4<br>Note 6<br>Note 4 | -<br>-<br>- |
| 1 | Chain-Logic International Corp. | MEGTAS CO.,LTD. | 3 | Revenue from commission<br>Receivable Commission | $ 3,267<br>$ 1 | Note 5<br>Note 6 | -<br>- |
| 1 | Chain-Logic International Corp. | MPI (SUZHOU) CORPORATION | 3 | Sale revenue<br>Receivable accounts | $ 6,819<br>$ 4,077 | Note 4<br>Note 6 | -<br>- |
| 2 | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | Lumitek (Changchou) Co. Ltd. | 3 | Sale revenue | $ 1,142 | Note 4 | - |
| 2 | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | MPI (SUZHOU) CORPORATION | 3 | Sale revenue | $ 854 | Note 4 | - |
| 3 | MEGTAS CO.,LTD. | Chain-Logic International Corp. | 3 | Sale revenue<br>Receivable accounts | $ 6,887<br>$ 563 | Note 4<br>Note 6 | -<br>- |
| 3 | MEGTAS CO.,LTD. | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | 3 | Sale revenue<br>Receivable accounts | $ 63<br>$ 9 | Note 4<br>Note 6 | -<br>- |
| 3 | MEGTAS CO.,LTD. | MPI (SUZHOU) CORPORATION | 3 | Sales revenue<br>Receivable accounts | $ 1,524<br>$ 588 | Note 4<br>Note 6 | -<br>- |
| 4 | MPI (SUZHOU) CORPORATION | MPI Corporation | 2 | Sale revenue - maintenance<br>Receivable Commission<br>Revenue from commission | $ 1,451<br>$ 2,426<br>$ 22,786 | Note 5<br>Note 6<br>Note 5 | -<br>-<br>- |
| 4 | MPI (SUZHOU) CORPORATION | Chain-Logic International Corp. | 3 | Sales revenue | $ 5,949 | Note 4 | - |
| 4 | MPI (SUZHOU) CORPORATION | CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | 3 | Sale revenue<br>Sale revenue - maintenance | $ 35<br>$ 20,855 | Note 4<br>Note 4 | -<br>- |
| 4 | MPI (SUZHOU) CORPORATION | Lumitek (Changchou) Co. Ltd. | 3 | Sale revenue | $ 70 | Note 4 | - |
| 5 | MPI AMERICA INC. | MPI Corporation | 2 | Others revenue | $ 121 | Note 4 | - |
| 6 | Lumitek (Changchou) Co. Ltd. | MPI (SUZHOU) CORPORATION | 3 | Sale revenue - others<br>Sale revenue - maintenance<br>Receivable accounts | $ 284<br>$ 385<br>$ 257 | Note 4<br>Note 4<br>Note 6 | -<br>-<br>- |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Other receivable accounts | $ 366 | Note 8 | - |

Note 1: Transactions between parent company and its subsidiaries are numbered as follows:

(1) "0" for parent company.

(2) Each subsidiary is numbered in sequential order starting from 1.

Note 2: Related-party transactions are divided into the three categories as follows (If it refers to the same transaction between parent company and subsidiary or subsidiary and subsidiary, the transaction is not required to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between it and its subsidiary, the subsidiary is not required to disclose the same transaction again. If either of the subsidiaries which trade with each other has disclosed the transaction, the other subsidiary is not required to disclose the same transaction again.)

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: For assets and liabilities, the proportion to the consolidated total income or total assets is shown as the Ratio of Shareholding to the consolidated total assets for the years ended on Dec.31. For income, it shall be shown as a Ratio of Shareholding to the consolidated Total incomes for the years ended on Dec 31.

Note 4: Processed under the general trading conditions and price.

Note 5: Based on the price agreed by both parties.

Note 6: O/A 30~180 days, same as that applicable to the general customers or suppliers.

Note 7: Based on the rent agreed by both parties.

Note 8: Out-of-pocket expenses of the general expenditure.

Note 9: Financing.

(2) <u>Information about investees</u>

The information about name, territory, business lines, original investment amount, shares held at ending, income and investment income recognized in the current period of the investees in which the Group may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) for the year ended December 31, 2019 is stated as following:

| Investor | Investee | Territory | Business lines | Original investment amount | | Held at ending | | | Investee income recognized in current period (Note 1) | Investment income recognized in the current period (Note 2) (Note 3) | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | End of the period | End of last year | Quantity | Ratio | Book value | | | |
| MPI Corporation | MPI TRADING CORP. | Offshore Chambers, P.O.BOX 217, APIA,SAMOA | Trading of probe cards and semi-automatic probers | $ 32 | $ 32 | 1,000 | 100% | $ 60,858 | $ (420) | $ (420) | Subsidiary of MPI Corporation |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| MPI Corporation | MMI HOLDING CO.,LTD. | Offshore Chambers, P.O.BOX 217, APIA,SAMOA | Holding company | $ 573,502 | $ 573,502 | 18,267,987 (Note4) | 100% | $ 490,841 | $ (27,590) | $ (28,060) | Subsidiary of MPI Corporation |
| MPI Corporation | MEGTAS CO.,LTD. | 134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-811, Korea | Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts | $ 53,767 | $ 53,767 | 400,000 | 80% (Note5) | $ 36,504 | $ (1,930) | $ (1,509) | Subsidiary of MPI Corporation |
| MPI Corporation | Chain-Logic International Corp. | 3F, No. 153, Zhonghe Street, Zhubei City, Hsinchu County | Professional agent of semi-conductor | $ 50,000 | $ 50,000 | 5,000,000 | 100% | $ 212,867 | $ 30,506 | $ 32,462 | Subsidiary of MPI Corporation |
| MPI Corporation | Allstron Corporation | No. 8, Lane 98, Jiaren Street, Neighborhood 36, Xinan Vil., Zhubei City, Hsinchu County | High-frequency wafer measurement probe card manufacturer | $ 50,000 | $ 50,000 | 1,550,000 | 100% | $ 1,578 | $ (66) | $ (66) | Subsidiary of MPI Corporation |
| MPI Corporation | MPA TRADING CORP. | Vistra (Anguilla) Limited, Vistra Corporate Services Centre, Albert Lake Drive, The Valley, Anguilla, British West Indies. | Holding company | $ 37,881 | $ 37,881 | 1,250,000 | 100% | $ (118,988) | $ (60,401) | $ (60,401) | Subsidiary of MPI Corporation |
| Chain-Logic International Corp. | CHAIN-LOGIC TRADING CORP. | Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365,307 St James Court, St Denis Street, Port Louis, Republic of Mauritius. | Primarily engaged in international trading | $ 12,687 (Note 6) | $ 46,921 | 300,100 | 100% | $ 17,041 | $ 99 | $ - | Subsidiary of Chain-Logic International Corp. |
| MPI Corporation | MPI America Inc | 2360 QUME DRIVE,SUITE C,SAN JOSE,CA | Trading of probe cards and semi-automatic probers | $ 36,366 | $ 36,366 | 1,200,000 | 100% | $ (115,520) | $ (60,344) | $ - | Subsidiary of MPA TRADING CORP. |

Note 1: Except MEGTAS CO., LTD. and MPI AMERICA INC., which were audited by other external auditors commissioned by it instead of the Company's external auditors. The others were audited by CPA of the parent company.

Note 2: The investment income recognized in the current period includes the investment income recognized under equity method and realized (unrealized) gain recognized from upstream/side stream transactions.

Note 3: The subsidiaries' income recognized in the current period includes the investment income to be recognized for their re-investment pursuant to the requirements.

Note 4: The Group's subsidiary, MMI HOLDING CO., LTD., reducing the cash capital US$2,857,000(equivalent to NT$84,006 thousand) in April 2018 and reducing the cash capital US$936,870(equivalent to NT$28,669 thousand) in September 2018. So far, the Group has invested a total of US$18,267,987 in the subsidiary, MMI HOLDING CO., LTD., totaling 18,267,987 shares, at the par value of US$1 per share. The Company's shareholding was 100%.

Note 5: In order to coordinate the corporation's operating program and promote the efficiency of capital usage, the Group has reported to the board of directors to takeover 20% of equity on MEGTAS CO., LTD. in₩ 5,000 per share on November 8, 2018. The total investment cost is NT$13,861 thousand and the date of the takeover is on October 5, 2018. Besides the company will takeover 100,000 shares, and the shareholding ratio will increase from 60% to 80%. The difference between consideration paid and carrying amount of subsidiaries acquired was NT$ 4,567 thousand.

Note 6: In order to meet the need for business expansion, the Group's subsidiary, CHAIN-LOGIC TRADING CORP., reducing the cash capital US$1,100,000(equivalent to NT$34,234 thousand) in July 2019. So far, the Group has invested a total of US$300,100 in the subsidiary, CHAIN-LOGIC TRADING CORP., totaling 300,100 shares, at the par value of US$1 per share. The Company's shareholding was 100%.

(3) Information related to investments in China:

A. Information related to investments in the territories of Mainland China

| Name of Chinese investee | Business lines | Paid-in capital | Mode of investment | Accumulated investment balance, beginning | Amount remitted or recovered in the current period | | Accumulated investment balance, ending | Investee income recognized in current period | Direct and indirect shareholding of the Company | Investment income recognized in the current period (Note 3) | Book value, ending | Accumulated investment income received until the end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | outflow | inflow | | | | | | |
| CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. | Primarily engaged in international trading | - (Note 4) (Note 5) | (Note 1) | USD 1,400,000 ($ 46,917) | - | USD 1,100,000 ($34,234) | USD 300,000 ($ 12,683) | $ (4,010) | 100 % | $ (4,010) | - | $15,852 |
| Lumitek (Changzhou) Co. Ltd. | R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts. | USD 16,000,000 ($ 502,470) | (Note 2) | USD 16,000,000 ($ 502,470) | - | - | USD 16,000,000 ($ 502,470) | $ (3,635) | 100 % | $ (3,635) | $ 488,433 | - |
| MPI (Suzhou) Corporation | R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, | USD 2,000,000 ($60,180) Registered capital USD 3,000,000 ($ 90,270) | (Note 2) | USD 2,000,000 ($60,180) | - | - | USD 2,000,000 ($60,180) | $ (23,681) | 100 % | $ (23,681) | $ 32,613 | - |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts. | | | | | | | | | | | |

Note 1: Reinvest the company in Mainland China via the offshore subsidiary, CHAIN-LOGIC TRADING CORP.

Note 2: Reinvest the company in Mainland China via the offshore subsidiary, MMI HOLDING CO., LTD.

Note 3: The recognition of investment income was on the basis of the financial statement audited by CPA of the parent company.

Note4：Our company present a discussion to the board of directors that they decide to adopt a resolution about the reduction of capital RMB 7,583,950(USD 1,100,000), the amount of paid-in capital should amend to USD 300,000, the payment will be transferred to CHAIN-LOGIC TRADING CORP. account at June 28, 2019.

Note5: The shareholders' meeting passed the liquidation of CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. on September 23, 2019. The company was written down on November 11, 2019, and remitted the surplus investment of US$428,835.20 (equivalent to NT$12,683 thousand). The Investment been approved by Commission on MOEA put on record in February 27, 2020.

B. Information related to ceiling on investment in Mainland China

| Accumulated amount of remittance from Taiwan to Mainland China at the end of period | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs | Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (Note) |
|---|---|---|
| USD 18,300,000<br>(NTD 575,333) | USD 19,710,272.42<br>(NTD 620,418) | NTD 2,627,907 |

Note 1: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

Note2：(a) Investment amount approved by the Investment LEDA-ONE (Shenzhen) Co. was liquidated and Written off in May 2017 and remitted the surplus investment US$155,857.58 (equivalent to NT$4,677 thousand) to offset the investment amount approved by the MOEA. The original investment amount at US$1,800,000(equivalent to NT$54,111 thousand) is still in total of US$1,644,142.42(equivalent to NT$49,434 thousand) that could not be offset the investment amount.

(b) MJC Microelectronics(Kunshan) Co., Ltd. was transferred to Japanese MJC Corporation in March, 2018, and the transfer amount of US$2,857,000 (equivalent to NT$84,006 thousand) was used to deduct the mainland investment quota in April, 2018.

(c) MJC Microelectronics (Shanghai) Co., Ltd. was liquidated in August, 2018, and in September, 2018, the liquidation amount of US$936,870 (equivalent to NT$28,669 thousand) was used to deduct the accumulated amount of investment in Mainland China.

(d) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the reduction of cash capital US$ 1,100,000 (equivalent to NT$34,234 thousand) by the Board of Directors meeting. The amount of cash capital reduction has remitted to Chain-Logic International Corp. in July, 2019 and was used to deduct the accumulated amount of investment in Mainland China.

C. Important transactions:

For the important transactions of the Group with the investees in Mainland China, direct or indirect, for the year ended December 31, 2019 (which have been eliminated when preparing the consolidated financial statements), please see the "Information related to the investees" and "Major business dealings and transactions between the parent company and its subsidiaries".

## 14. Information by department

(1) General information

The Group primarily engages in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.

(2) To report the information about department income, assets and liabilities, and basis of measurement and reconciliation

The department income, department assets and department liabilities are consistent with those identified in the financial statements. Please see the balance sheet and comprehensive income statement.

(3) By product and labor service:

The Group engages in a single industry. Its revenue from customers is primarily generated from the sale of semi-conductor production process and testing equipment.

(4) By territory

The Group's information by territory is stated as following. The revenue is classified based on the customers' geographical locations, while the non-current assets are classified based on the geographical locations of the assets.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **By territory** | **Revenue** | **Non-current assets** | **Revenue** | **Non-current assets** |
| Taiwan | $ 2,365,602 | $ 3,013,170 | $ 1,882,554 | $ 2,930,365 |
| China | 421,257 | 209,669 | 1,317,664 | 265,011 |
| U.S.A. | 678,399 | 13,086 | 1,078,148 | 9,196 |
| Singapore | 439,900 | - | 246,431 | - |
| Korea | 20,410 | 2,756 | 28,856 | 2,725 |
| Other countries | 1,589,632 | - | 832,703 | - |
| Total | $ 5,515,200 | $ 3,238,681 | $ 5,386,356 | $ 3,207,297 |

(Note) The non-current assets include property, plant and equipment, investment property, intangible assets and other assets, exclusive of financial instruments, deferred income tax assets, assets of retirement/termination benefits and non-current assets generated from insurance contract.

(5) Information about major customers

Information about the Group's revenue from the transaction with single customer accounting for 10% of the operating revenue, net:

2019：None.

2018：None.

# MPI Corporation

# Chairman: Ko, Chang-Lin