

MPI CORPORATION and Subsidiaries
Consolidated Financial Statements
Years Ended September 30, 2019 and 2018 and
Independent Accountants' Review Report

MPI CORPORATION and Subsidiaries

Page

CoverPage.....	1
Table of Contents.....	2
Independent Auditor’s Review Report	3
Consolidated Balance Sheets.....	4
Consolidated Statements of Comprehensive Income.....	6
Consolidated Statements of Changes in Equity.....	7
Consolidated Statements of Cash Flows.....	8
Consolidated Notes to the Consolidated Financial Statements	10
A. Company Profile.....	10
B. Date and Procedure for Ratification of Financial Report.....	10
C. Application of New and Amended Standards and Interpretations.....	10
D. Summary of Significant Accounting Policies.....	12
E. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty.....	33
F. Notes to Major Accounting Titles.....	35
G. Transactions with Related Parties.....	60
H. Pledged Assets.....	62
I. Significant Contingent Liability and Unrecognized Contractual Commitment.....	63
J. Significant Disaster Loss.....	64
K. Significant Subsequent Events.....	64
L. Others.....	64
M. Disclosures of Notes.....	74
a. Information about Important Transaction.....	74
b. Information about Investees.....	79
c. Information related to Investment in China.....	81
N. Information by Department.....	83

NEXIA SUN RISE CPAs & COMPANY

日正聯合會計師事務所

Certified Public Accountants



INDEPENDENT AUDITOR'S REVIEW REPORT

To the Board of Directors and Stockholders of MPI Corporation

Introduction

We have reviewed the accompanying consolidated financial statements of **MPI CORPORATION** (the "Company") and its subsidiaries (collectively referred to as the "Group") as of September 30, 2019 and 2018 and the consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. Managements 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 Accounting Standard 34, "Interim Financial Reporting," endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except for those described in the following paragraph of basis on qualified conclusion, we conducted our reviews in accordance with Statements of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of marking inquiries, primarily of persons responsible of financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis of qualified conclusion

As described in Note 4(3) and 6(5), the financial statements of certain non-significant subsidiaries and measured based on their unreviewed financial statements as of and for the nine-month periods ended September 30, 2019 and 2018. Total assets of these subsidiaries and investments amounted to NT\$894,821 thousand and NT\$658,976 thousand, representing 12% and 8% of the related consolidated totals, and total liabilities amounted to NT\$301,291 thousand and NT\$194,292 thousand, representing 9% and 5% of the related consolidated totals, as of September 30, 2019 and 2018, respectively. Total comprehensive income of these subsidiaries including share of profit

2F No. 33, Fu Hsing N. Road, Taipei, Taiwan, R.O.C.

Tel : (886) 2 27510306³⁻¹ Fax : (886) 2 27401817

台北市復興北路三十三號二樓

NEXIA SUN RISE CPAs & COMPANY

日正聯合會計師事務所

Certified Public Accountants



of associates NT \$(66,284) thousand and NT \$(34,089) thousand, constituting (24%) and (21%) of the consolidated totals for the nine-month periods then ended respectively.

As described in Note 6(5), its Group's investments accounted for using equity method balances of NT \$0 thousand and NT \$0 thousand as of September 30, 2019 and 2018, respectively, the related shares of investment income from the associates amounted to NT \$0 thousand and NT \$151 thousand. And the related share of other comprehensive income of subsidiaries amounted to NT \$0 thousand. These investment amounts were based on the investees' unreviewed financial statements for the same reporting periods as those of the Company.

And these investment amounts as well as additional disclosures in Note 13 "Information on Investees" were based on the investees' unreviewed financial statements for the same reporting periods as those of the Company.

Qualified conclusion

Based on our reviews, except for the effects of adjustments, if any, as might have been required had the financial statements of these non-significant subsidiaries and investees' for using equity method and related information mentioned described in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

2F No. 33, Fu Hsing N. Road, Taipei, Taiwan, R.O.C.

Tel : (886) 2 27510306³⁻² Fax : (886) 2 27401817

台北市復興北路三十三號二樓

NEXIA SUN RISE CPAs & CO IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING FIRMS.

NEXIA SUN RISE CPAs & COMPANY

日正聯合會計師事務所

Certified Public Accountants



Sun Rise CPAs & Company

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

November 12, 2019

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.

2F No. 33, Fu Hsing N. Road, Taipei, Taiwan, R.O.C.

Tel : (886) 2 27510306³⁻³ Fax : (886) 2 27401817

台北市復興北路三十三號二樓

NEXIA SUN RISE CPAS & CO IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING FIRMS.

MPI CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (ASSETS)

September 30, 2019, December 31, 2018 AND September 30, 2018

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

(UNAUDITED)

ASSETS	Note	September 30, 2019		December 31, 2018		September 30, 2018	
		Amounts	%	Amounts	%	Amounts	%
CURRENT ASSETS							
Cash and cash equivalents	6(1)	\$ 858,165	11	\$ 1,110,694	14	\$ 825,776	10
Current financial assets at amortised cost	6(2)	-	-	49,313	1	-	-
Notes receivable, net	6(3)	92,069	1	100,753	1	10,922	-
Accounts receivable, net	6(3)	1,067,087	14	945,429	12	1,016,082	13
Other receivables		2,396	-	6,038	-	3,692	-
Income tax receivable		676	-	676	-	5,105	-
Inventories, net	6(4)	2,296,609	30	2,555,052	31	2,707,740	34
Prepayments		136,813	2	110,690	1	119,191	1
Other current assets	8	20,166	-	10,548	-	11,209	-
Total Current Assets		4,473,981	58	4,889,193	60	4,699,717	58
NONCURRENT ASSETS							
Investments accounted for using equity method	6(5)	-	-	-	-	-	-
Property, plant and equipment	6(6), 7.8	2,839,045	37	3,030,643	37	3,103,943	38
Right-of-use assets	6(7)	151,781	2	-	-	-	-
Intangible assets	6(8)	35,644	-	41,575	-	42,317	1
Deferred income tax assets	6(19)	111,547	1	93,708	1	81,992	1
Other noncurrent assets	6(9)	137,385	2	135,079	2	144,950	2
Total Noncurrent Assets		3,275,402	42	3,301,005	40	3,373,202	42
TOTAL ASSETS		\$ 7,749,383	100	\$ 8,190,198	100	\$ 8,072,919	100

(The accompanying notes are an integral part of these consolidated financial statements)

MPI CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (LIABILITIES AND EQUITY)
September 30, 2019, December 31, 2018 AND September 30, 2018
(All amounts are expressed in thousand of New Taiwan Thousand Dollars unless otherwise stated)
(UNAUDITED)

LIABILITIES AND EQUITY	Note	September 30, 2019		December 31, 2018		September 30, 2018	
		Amounts	%	Amounts	%	Amounts	%
CURRENT LIABILITIES							
Short-term loans	6(10)	\$ 700,000	9	\$ 818,000	10	\$ 1,018,000	13
Contract liabilities— current	6(17),7	721,277	9	940,903	12	927,757	12
Notes payable		13,035	-	6,097	-	-	-
Accounts payable		354,371	5	478,605	6	498,499	6
Payables on equipment		21,532	-	22,722	-	11,939	-
Other payables	6(11)	544,175	7	679,283	8	514,069	7
Income tax payable		34,912	-	49,516	1	22,992	-
Provisions	6(12)	5,618	-	4,859	-	3,697	-
Lease liabilities— current	6(7)	77,283	1	-	-	-	-
Current portion of long-term liabilities	6(14)	-	-	29,233	-	29,233	-
Lease obligations payable— current	6(6)	-	-	15,883	-	15,762	-
Other current liabilities		17,308	-	13,926	-	13,247	-
Total Current Liabilities		2,489,511	31	3,059,027	37	3,055,195	38
NONCURRENT LIABILITIES							
Non-current Financial liabilities at Fair Value through Profit or Loss	6(13)	4,330	-	9,266	-	7,400	-
Bonds payable	6(13)	901,497	13	892,843	11	921,140	11
Long-term loans	6(14)	-	-	39,230	1	46,538	1
Deferred income tax liabilities	6(19)	6,607	-	14,166	-	11,711	-
Lease liabilities— noncurrent	6(7)	75,230	1	-	-	-	-
Lease obligations payable— noncurrent	6(6)	-	-	15,883	-	19,703	-
Accrued pension cost	6(15)	38,146	-	42,527	1	36,366	1
Other noncurrent liabilities		311	-	325	-	97	-
Total Other Liabilities		1,026,121	14	1,014,240	13	1,042,955	13
TOTAL LIABILITIES		3,515,632	45	4,073,267	50	4,098,150	51
EQUITY	6(16)						
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT							
Capital common stock		799,154	10	799,014	10	799,014	10
Capital surplus		977,935	13	977,255	12	979,327	12
Retained earnings							
Appropriated as legal capital reserve		596,549	8	563,093	7	563,093	7
Special reserve		54,229	1	42,308	-	42,308	1
Unappropriated earnings		1,854,204	24	1,779,401	22	1,632,634	20
Total Retained Earnings		2,504,982	33	2,384,802	29	2,238,035	28
Other							
Foreign currency translation adjustments		(57,384)	(1)	(54,230)	(1)	(60,721)	(1)
Total others		(57,384)	(1)	(54,230)	(1)	(60,721)	(1)
Equity attributable to shareholders of the parent		4,224,687	55	4,106,841	50	3,955,655	49
NONCONTROLLING INTERESTS		9,064	-	10,090	-	19,114	-
TOTAL EQUITY		4,233,751	55	4,116,931	50	3,974,769	49
TOTAL LIABILITIES AND EQUITY		\$ 7,749,383	100	\$ 8,190,198	100	\$ 8,072,919	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 September 30, 2019 and 2018
(All amounts are expressed in thousand of New Taiwan Thousand Dollars unless otherwise stated)
(UNAUDITED)

Items	July 1~September 30, 2019		July 1~September 30, 2018		January 1 ~ September 30, 2019		January 1 ~ September 30, 2018	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
OPERATING REVENUE, NET								
Sales revenue	\$ 1,402,865	96	\$ 1,486,121	95	\$ 3,833,974	96	\$ 3,491,717	93
Less: sales returns	(1,277)	-	(2,087)	-	(6,982)	-	(9,604)	-
sales discounts and allowances	(3,915)	-	(3,378)	(1)	(7,480)	-	(11,150)	-
Lease revenue	1,571	-	-	-	1,571	-	-	-
Commission revenue	1,891	-	(256)	-	2,483	-	46,563	1
Processing Fees revenue	66,227	4	86,564	6	172,758	4	244,515	6
Operating Revenue, net	1,467,362	100	1,566,964	100	3,996,324	100	3,762,041	100
OPERATING COSTS	(866,591)	(59)	(927,380)	(59)	(2,425,306)	(61)	(2,300,055)	(61)
GROSS PROFIT, NET	600,771	41	639,584	41	1,571,018	39	1,461,986	39
OPERATING EXPENSES								
Selling expenses	(171,729)	(12)	(157,918)	(10)	(465,674)	(12)	(418,515)	(11)
General & administrative expenses	(96,141)	(7)	(86,135)	(6)	(269,965)	(7)	(252,647)	(7)
Research and development expenses	(174,081)	(12)	(240,556)	(15)	(532,948)	(13)	(611,601)	(16)
Expected Credit (loss)/gains	4,381	1	(4,272)	-	(2,761)	-	(2,941)	-
Operating expense, net	(437,570)	(30)	(488,881)	(31)	(1,271,348)	(32)	(1,285,704)	(34)
OPERATING INCOME	163,201	11	150,703	10	299,670	7	176,282	5
NON-OPERATING INCOME AND EXPENSES								
Other gains and losses	(2,886)	-	439	-	14,937	-	27,578	1
Finance costs	(6,181)	-	(6,629)	-	(19,345)	-	(18,028)	-
Share of profits of subsidiaries and associates	-	-	(71)	-	-	-	151	-
Interest income	1,232	-	625	-	4,023	-	1,839	-
Rent income	2,603	-	697	-	7,968	-	2,122	-
Other non-operating revenue-other items	6,409	-	8,766	-	17,204	1	17,749	-
Total Non-operating Income	1,177	-	3,827	-	24,807	1	31,411	1
INCOME BEFORE INCOME TAX	164,378	11	154,530	10	324,477	8	207,693	6
INCOME TAX BENEFIT(EXPENSE)	(21,644)	(1)	(24,428)	(2)	(44,944)	(1)	(29,340)	(1)
NET INCOME	142,734	10	130,102	8	279,533	7	178,353	5
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that may be reclassified subsequently to profit or loss								
Exchange differences arising on translation of foreign operations	(12,310)	(1)	(22,386)	(1)	(3,730)	-	(18,657)	-
Other comprehensive income for the year, net of income tax	(12,310)	(1)	(22,386)	(1)	(3,730)	-	(18,657)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 130,424	9	\$ 107,716	7	\$ 275,803	7	\$ 159,696	5
NET INCOME(LOSS) ATTRIBUTABLE TO :								
Shareholders of the parent	143,012	10	128,977	8	279,983	7	175,917	5
Noncontrolling interests	(278)	-	1,125	-	(450)	-	2,436	-
	\$ 142,734	10	\$ 130,102	8	\$ 279,533	7	\$ 178,353	5
TOTAL COMPREHENSIVE INCOME(LOSS)								
Shareholders of the parent	131,047	9	106,461	7	276,829	7	157,505	5
Noncontrolling interests	(623)	-	1,255	-	(1,026)	-	2,191	-
	\$ 130,424	9	\$ 107,716	7	\$ 275,803	7	\$ 159,696	5
EARNINGS PER COMMON SHARE(NTD)								
Basic earnings per share	After-tax		After-tax		After-tax		After-tax	
	\$ 1.79		\$ 1.61		\$ 3.50		\$ 2.20	
Diluted earnings per share	After-tax		After-tax		After-tax		After-tax	
	\$ 1.52		\$ 1.37		\$ 2.97		\$ 1.87	

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

MPI CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

From January 1 to September 30, 2019 and 2018

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

Item	Capital			Retained Earnings			Others		Total	Non-controlling Interests	Total Equity
	Common Stock	Capital Surplus	Legal Capital Reserve	Special Reserve	Unappropriated Earnings	Foreign Currency Translation Reserve					
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		70,123						70,123		70,123	
Disposal of investments accounted for under the equity method					175,917			175,917	2,436	178,353	
Net Income for the nine-month period ended September 30, 2018					-		(18,412)	(18,412)	(245)	(18,657)	
Other comprehensive income for the nine-month period ended September 30, 2018					175,917		(18,412)	157,505	2,191	159,696	
Total comprehensive income					\$ 1,632,634		(60,721)	\$ 3,955,655	\$ 19,114	\$ 3,974,769	
BALANCE, SEPTEMBER 30, 2018	\$ 799,014	\$ 979,327	\$ 563,093	\$ 42,308	\$ 1,632,634	\$ (60,721)		\$ 3,955,655	\$ 19,114	\$ 3,974,769	
BALANCE, JANUARY, 1, 2019	\$ 799,014	\$ 977,255	\$ 563,093	\$ 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		(203)						(203)		(203)	
Other changes in capital surplus		19						19		19	
Net Income for the nine-month period ended September 30, 2019					279,983			279,983	(450)	279,533	
Other comprehensive income for the nine-month period ended September 30, 2019					-		(3,154)	(3,154)	(576)	(3,730)	
Total comprehensive income					279,983		(3,154)	276,829	(1,026)	275,803	
Convertible Bonds Transferred To Common Stock	140							1,004		1,004	
BALANCE, SEPTEMBER 30, 2019	\$ 799,154	\$ 977,935	\$ 596,549	\$ 54,229	\$ 1,854,204	\$ (57,384)		\$ 4,224,687	\$ 9,064	\$ 4,233,751	

(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 September 30, 2019 and 2018

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

(UNAUDITED)

Items	Jan 1 ~ Sep 30, 2019	Jan 1 ~ Sep 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 324,477	\$ 207,693
Adjustments to reconcile net income to net		
Depreciation	396,821	357,707
Amortization	47,084	49,306
Expected Credit gains	2,761	2,941
Gains on Financial Assets (Liabilities) at Fair Value through Profit or Loss	(4,921)	1,000
Interest expense	19,345	18,028
Interest revenue	(4,023)	(1,839)
Loss (gain) on equity-method investments	-	(151)
(Gain) loss on disposal of property, plant and equipment	(1,899)	(270)
(Gain) loss on disposal of investments accounted for using equity method	-	(13,141)
(Gain) on repurchase of convertible bonds	(82)	-
Depreciation of assets leased to others	2,002	-
Adjustments-exchange (Gain) loss on prepayments for equipment	(2)	44
(Gain) loss on lease modification	(52)	-
Net changes in operating assets and liabilities		
Net changes in operating assets		
Decrease (Increase) in notes receivable	8,683	(3,926)
Decrease (Increase) in accounts receivable	(124,404)	(71,261)
Decrease (Increase) in accounts receivable-related parties	-	758
Decrease (Increase) in other receivables	3,922	5,722
Decrease (Increase) in other receivables-related parties	-	-
Decrease (Increase) in inventories	258,442	(433,271)
Decrease (Increase) in prepayments	(26,122)	(25,090)
Decrease (Increase) in other current assets	(6,273)	(6,423)
Net changes in operating liabilities		
(Decrease) Increase in contract liabilities	(219,626)	130,466
(Decrease) Increase in notes payable	6,938	-
(Decrease) Increase in accounts payable	(124,234)	83,581
(Decrease) Increase in accounts payable-related parties	-	(3,673)
(Decrease) Increase in other accounts payable	(134,852)	17,964
(Decrease) Increase in other accounts payable-related parties	-	(4,875)
(Decrease) Increase in provision of liabilities	759	487
(Decrease) Increase in other current liabilities	3,381	(23,522)
(Decrease) Increase in accrued pension cost	(4,381)	1,109
Cash generated from operations	423,744	289,364
Interest received	3,744	1,728
Cash dividends received	-	861
Interest (excluding capitalization of interest)	(5,586)	(16,523)
Cash dividends paid	(159,803)	(39,951)
Income taxes paid	(84,946)	(32,896)
Net cash Provided By Operating Activities	177,153	202,583

(Continue)

MPI CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

From January 1 to September 30, 2019 and 2018

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

(UNAUDITED)

Items	Jan 1 ~ Sep 30, 2019	Jan 1 ~ Sep 30, 2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of financial assets measured at amortized cost	49,313	-
Proceeds from disposal of equity-method investments	-	111,442
Additions to property, plant and equipment	(174,943)	(268,239)
Proceeds from sale of property, plant and equipment	7,565	1,903
Intangible assets	(17,216)	(20,136)
Increase in other financial assets	(3,345)	(23)
Increase in other non-current assets	(26,287)	-
Decrease in other non-current assets	-	25,788
Net cash Provided Used In Investing Activities	<u>(164,913)</u>	<u>(149,265)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(118,000)	(152,000)
Proceeds from bonds issued	-	995,618
Repurchase of convertible bonds	(1,802)	-
Repayments of long-term loans	(68,463)	(722,925)
Increase in guarantee deposits received	214	-
Cash payments for the principal portion of the lease liability	(73,241)	-
Decrease in nocurrent liabilities	(229)	(110)
Increase (decrease) in noncontrolling interests	(576)	(245)
Net cash (Used In) Financing Activities	<u>(262,097)</u>	<u>120,338</u>
Effects of exchange rate change on cash	<u>(2,672)</u>	<u>(4,709)</u>
Net increase in cash and cash equivalents	(252,529)	168,947
Cash and cash equivalents at beginning of year	1,110,694	656,829
Cash and cash equivalents at end of year	<u>\$ 858,165</u>	<u>\$ 825,776</u>

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

MPI CORPORATION and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED September 30, 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\$799,154 thousand and outstanding stock has been 79,915,374 shares until September 30, 2019. Upon resolution of the 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 November 12, 2019.

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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group'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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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

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 of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standards 34, 'Interim financial reporting' endorsed by the FSC.

(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.
- (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) Basis for consolidation

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
			September 30, 2019	December, 31, 2018	September 30 2018	
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%	100%	Established in March 1, 1994
MPI	MPI TRADING CORP.(Samoa)	Selling Probe Card and Test Equipment	100%	100%	100%	Established in December 22, 2000.
MPI	MMI HOLDING CO., LTD.(Samoa)	Investment activities	100%	100%	100%	Established in August 7, 2002. (Note 1)
MPI	MEGTAS CO., LTD	Test, maintenance, manufacturing and import/export trading of parts of semiconductors	80%	80%	60%	Established in September 1, 2010.(Note 3)
MPI	WANG-TONG CORP.	Maintenance, purchase, sales, research and development of computers and peripheral equipment;	-	-	-	Established in December 22, 2010. The Company dismissed in August 15, 2018 and liquidated in September 14, 2018. (Note 2)
MPI	ALLSTRON CORP.	Manufacturing of high frequency wafer foundry measuring probing	100%	100%	100%	Established in 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%	100%	Established in April 12, 2017.
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP. (Mauritius)	International trading business	100%	100%	100%	Established in November 19, 2001. (Note 5)
CHAIN-LOGIC TRADING CORP.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	International trading	100%	100%	100%	Established in February 8, 2002. (Note 4)
MMI HOLDING CO., LTD.	Lumitek (ChangZhou) Co.,Ltd.	Selling and manufacturing of high-tech industry such as LED.	100%	100%	100%	Established in January 10, 2014.
MMI HOLDING CO., LTD.	MPI (Suzhou) CORPORATION	Selling and manufacturing of high-tech industry such as LED.	100%	100%	100%	Established in July 11, 2017.
MPA TRADING CORP.	MPI AMERICA INC.	Selling Probe Card and Test Equipment	100%	100%	100%	Established in 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. The Investment been approved by Commission on MOEA put on record.
- (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 financial statements of the entity as of and for the nine-month periods ended September 30, 2019 and 2018 were not reviewed by the independent auditors as the entity did not meet the definition of significant subsidiary except MMI HOLDING CO., LTD. and Lumitek (ChangZhou) Co.,Ltd.

- C. Subsidiaries not included into the consolidated financial statements: N/A.
- D. Different adjustment and treatment by subsidiaries in the accounting period: N/A.
- E. Nature and scope of the important restrictions on enterprise's acquisition or use of the group's assets and solvency: N/A.
- F. Subsidiaries over which the Group holds important non-controlling equity: N/A.

(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) 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 non-current 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 non-current 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 amortised cost

- A. Financial assets at amortised 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 amortised cost are recognised and derecognised 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 recognised in profit or loss when the asset is derecognised 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 amortised 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 financial 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 in affiliates

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 recognised 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 recognised 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 amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised 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 recognised 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 recognised 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 2~5years on a straight-line basis.

C. Internally generated intangible assets—research and development expenditures

- (a) Research expenditures are recognised 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.

(24) Impairment of 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) Treasury stock

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) Revenue recognition

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 recognised 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) Business combination

- 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 September 30, 2019, the book value of receivable accounts has been NT\$1,159,156 thousand (exclusive of the allowance for uncollectible accounts, NT\$14,141 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 September 30, 2019, the book value of the Group's inventories has been NT\$2,296,609 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT\$300,551 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 September 30, 2019, the deferred income tax assets recognized by the Group have been NT\$111,547 thousand.

(4) Recognition of revenue

In principle, sales 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 September 30, 2019, the reserve for liabilities recognized by the Group have been NT\$5,618 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 September 30, 2019, the book value of accrual pension liabilities of the Group amounted to NT\$38,146 thousand.

6. Notes to Major Accounting Titles

(1) Cash and cash equivalents

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Cash:			
Cash on hand	\$ 4,027	\$ 5,352	\$ 4,667
Cash in banks:			
Checking deposits	10	10	3,705
Demand deposits	813,960	1,063,911	780,711
Time deposits	40,168	41,421	36,693
Deposit in transit	—	—	—
Total	<u>\$ 858,165</u>	<u>\$ 1,110,694</u>	<u>\$ 825,776</u>

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Financial products	<u>\$ -</u>	<u>\$ 49,313</u>	<u>\$ -</u>

A. The Group recognized interest revenue of financial assets at amortised cost was NT\$736 thousand and NT\$ 0 start from January to September 30, at 2019 and 2018.

B. As of September 30, 2019, December 31, 2018 and September 30, 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 amortised cost held by the Group was NT\$0 thousand, NT\$49,313 thousand and NT\$0 thousand, respectively.

C. The Group's financial assets at amortised cost were not been provided as collateral on September 30, 2019, December 31, 2018 and September 30, 2018.

D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(3)A. Notes receivable, net

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes receivable	\$ 92,069	\$ 100,753	\$ 10,922
Less: Allowance for doubtful accounts	—	—	—
Notes receivable, net	<u>\$ 92,069</u>	<u>\$ 100,753</u>	<u>\$ 10,922</u>

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:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
	Total	Impairment	Total	Impairment	Total	Impairment
Neither past due nor impaired	\$ 92,069	\$ —	\$ 100,753	\$ —	\$ 10,922	\$ —
1~90 days	-	-	-	-	-	-
91 to 180 days	-	-	-	-	-	-
181 to 360 days	-	-	-	-	-	-
361 to 720 days	-	-	-	-	-	-
Over 721 days	-	-	-	-	-	-
Total	<u>\$ 92,069</u>	<u>\$ —</u>	<u>\$ 100,753</u>	<u>\$ —</u>	<u>\$ 10,922</u>	<u>\$ —</u>

The above ageing analysis was based on account day.

B. Accounts receivable, net

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts receivable	\$ 1,081,082	\$ 956,693	\$ 1,028,128
Less: Allowance for doubtful accounts	(13,995)	(11,264)	(12,046)
Accounts receivable, net	<u>\$ 1,067,087</u>	<u>\$ 945,429</u>	<u>\$ 1,016,082</u>

Accounts receivable-related parties
: N/A.

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Overdue receivable			
Less: Allowance for doubtful accounts	\$ 146	\$ 2,836	\$ 3,739
Overdue receivable, net	(146)	(2,836)	(3,739)
Accounts receivable	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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	2,761	-	2,761
Reversal of impairment	-	-	-
Write-offs during the period	(2,705)	-	(2,705)
Unwinding of discount and premium	(15)	-	(15)
At September 30, 2019	<u>\$ 14,141</u>	<u>\$ -</u>	<u>\$ 14,141</u>
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	2,941	-	2,941
Reversal of impairment	-	-	-
Write-offs during the period	(30)	(67)	(97)
Unwinding of discount and premium	(140)	-	(140)
At September 30, 2018	<u>\$ 15,785</u>	<u>\$ -</u>	<u>\$ 15,785</u>

c. The ageing analysis of accounts receivable is stated as follows:

	September 30, 2019		December 31, 2018		September 30, 2018	
	Total	Impairment	Total	Impairment	Total	Impairment
Neither past due nor impaired	\$ 936,861	\$ -	\$ 818,783	\$ -	\$ 881,189	\$ -
1~90 days	114,624	8,024	125,908	8,814	130,903	9,163
91 to 180 days	19,260	2,889	6,656	998	12,096	1,815
181 to 360 days	8,345	2,086	4,885	1,221	3,609	902
361 to 720 days	1,992	996	461	231	331	166
Over 721 days	146	146	2,836	2,836	3,739	3,739
Total	<u>\$ 1,081,228</u>	<u>\$ 14,141</u>	<u>\$ 959,529</u>	<u>\$ 14,100</u>	<u>\$ 1,031,867</u>	<u>\$ 15,785</u>

The above ageing analysis was based on past due date.

C. As of September 30, 2019, December 31, 2018 and September 30, 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

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 629,423	\$ 668,630	\$ 659,623
Supplies	130,784	131,999	125,407
Work-in-process	449,606	436,246	409,954
Semi-finished goods	339,019	348,101	353,470
Finished goods	916,016	1,130,483	1,342,788
Merchandise	132,304	76,197	82,797
Materials and supplies in transit	8	19,107	6
Less : Allowance to reduce inventory to market	(300,551)	(255,711)	(266,305)
Inventories, net	<u>\$ 2,296,609</u>	<u>\$ 2,555,052</u>	<u>\$ 2,707,740</u>

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

	<u>Jul1~Sep30,2019</u>	<u>Jul1~Sep30,2018</u>	<u>Jan.1~Sep30,2019</u>	<u>Jan.1~Sep30,2018</u>
Cost of inventories sold	\$ 838,851	\$ 922,516	\$ 2,347,359	\$ 2,280,690
Loss on market price decline inventories (gain from price recovery)	8,582	(7,342)	44,840	2,941
Loss on scrapping of inventories	5,258	-	5,258	-
Other operating costs-employees' bonus	8,498	7,692	16,986	9,842
Estimated warranty liabilities	3,400	4,514	8,861	6,582
Depreciation of assets leased to others	2,002	-	2,002	-
Operating Cost	<u>\$ 866,591</u>	<u>\$ 927,380</u>	<u>\$ 2,425,306</u>	<u>\$ 2,300,055</u>

B. As of September 30, 2019, December 31, 2018 and September 30, 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:

Names of Investee company	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
	Amounts	Amounts	Amounts
Associates :			
MJC Microelectronics Shanghai Co.,Ltd.	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A. Changes in investment under equity method:

	<u>Jan.1~Sep.30, 2019</u>	<u>2018</u>	<u>Jan.1~Sep.30, 2018</u>
Balance , beginning	\$ -	\$ 29,999	\$ 29,999
Cash dividend	-	(861)	(861)
Investment income under equity method	-	151	151
Cumulative translation adjustments	-	175	175
Loss (gain) on disposal of equity -method investments- MMS electronics tech. (Shanghai) co., ltd	-	1,733	1,733
Loss from disposal of investments- MMS electronics tech. (Shanghai) co., ltd	-	(28,081)	(28,081)
Transfer to non-current asset held for sale	-	(3,116)	(3,116)
Balance , ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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			Methods of measurement
			September 30, 2019	December 31, 2018	September 30, 2018	
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:

	September 30, 2019	December 31, 2018	September 30, 2018
The carrying amount of the Group's individually immaterial associates	\$ -	\$ -	\$ -
	Jan.1~Sep.30, 2019	Jan.1~Sep.30, 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. As of September 30, 2018, the financial statements of investments accounted for using equity method were consolidated and measure based on their unreviewed financial statements.

E. As of December 31, 2018 and September 30, 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) Property, plant and equipment

- 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	49,561	1,828	7,191	6,165	24	-	-	80,018	145,407
Disposals	-	-	(118,183)	(2,515)	(12,584)	(40,305)	(261)	-	-	-	(173,848)
Reclassifications	-	-	11,266	-	246	6,331	82	(79,415)	10,385	-	(51,105)
effect of movements in exchange rate	-	(52)	(2,150)	(4)	(117)	-	(543)	-	(10)	-	(2,876)
At September 30, 2019	\$ 770,963	\$ 1,569,951	\$ 1,434,123	\$ 1,827	\$ 63,366	\$ 721,063	\$ 48,645	\$ -	\$ 10,375	\$ 98,561	\$ 4,718,874
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	-	13,801	47,186	-	7,671	639	402	-	-	28,724	98,423
Disposals	-	-	(22,757)	-	(15,039)	(47,966)	(859)	-	-	-	(86,621)
Reclassifications	-	58,950	69,534	-	166	12,179	-	-	-	(60,328)	80,501
effect of movements in exchange rate	-	(1,633)	(17,157)	(74)	(183)	132	(994)	(2,336)	-	-	(22,245)
At September 30, 2018	\$ 770,963	\$ 1,581,220	\$ 1,476,360	\$ 2,499	\$ 70,751	\$ 732,247	\$ 48,844	\$ 78,811	\$ -	\$ 25,967	\$ 4,787,662
Accumulated depreciation and impairment :											
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	-	51,931	178,569	37	11,176	79,483	4,271	-	2,002	-	327,469
Disposals	-	-	(112,600)	(2,515)	(12,501)	(40,305)	(261)	-	-	-	(168,182)
Reclassifications	-	-	(5,855)	-	-	-	25	(47,649)	5,792	-	(47,687)
effect of movements in exchange rate	-	(6)	(1,745)	(3)	(140)	-	(523)	-	(7)	-	(2,424)
At September 30, 2019	\$ -	\$ 404,631	\$ 923,406	\$ 37	\$ 36,075	\$ 464,904	\$ 42,989	\$ -	\$ 7,787	\$ -	\$ 1,879,829
Accumulated depreciation and impairment :											
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	-	49,484	188,641	423	13,653	85,767	7,742	11,997	-	-	357,707
Disposals	-	-	(21,154)	-	(15,026)	(47,966)	(842)	-	-	-	(84,988)
Reclassifications	-	-	(141)	-	-	-	-	-	-	-	(141)
effect of movements in exchange rate	-	(504)	(9,339)	(68)	(36)	3	(661)	(1,110)	-	-	(11,715)
At September 30, 2018	\$ -	\$ 351,201	\$ 805,837	\$ 2,499	\$ 39,785	\$ 403,480	\$ 37,571	\$ 43,346	\$ -	\$ -	\$ 1,683,719
Book value											
At September 30, 2019	\$ 770,963	\$ 1,165,320	\$ 510,717	\$ 1,790	\$ 27,291	\$ 256,159	\$ 5,656	\$ -	\$ 2,588	\$ 98,561	\$ 2,839,045
At December 31, 2018	\$ 770,963	\$ 1,216,677	\$ 628,592	\$ -	\$ 31,090	\$ 323,146	\$ 9,866	\$ 31,766	\$ -	\$ 18,543	\$ 3,030,643
At September 30, 2018	\$ 770,963	\$ 1,230,019	\$ 670,523	\$ -	\$ 30,966	\$ 328,767	\$ 11,273	\$ 35,465	\$ -	\$ 25,967	\$ 3,103,943

- 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 :

	<u>2018</u>	<u>Jan.1~Sep. 30, 2018</u>
Cost		
Machinery	\$ 81,147	\$ 81,147
Less : Accumulated depreciation	(48,515)	(44,456)
effect of movements in exchange	(866)	(1,226)
rate		
Leased assets, Net.	<u>\$ 31,766</u>	<u>\$ 35,465</u>

- (b) The content of capital were summarized as follows :

- Ⓐ The group has in January 2016 signed a leasing contract with a non-stake holder 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 September 30, 2018, the future payments for Payables on leased were as follows :

	<u>Total</u>	<u>Financing Expenses</u>	<u>Present Value</u>
Current			
Up to 1 years	\$ 16,383	\$ 621	\$ 15,762
Non-current			
1 to 5 years	20,478	776	19,703
Total	<u>\$ 36,861</u>	<u>\$ 1,397</u>	<u>\$ 35,465</u>

(d) As of December 31, 2018, the future payments for payables on leased were as follows :

	<u>Total</u>	<u>Financing Expenses</u>	<u>Present Value</u>
Current			
Up to 1 years	\$ 16,508	\$ 625	\$ 15,883
Non-current			
1 to 5 years	16,508	625	15,883
Total	<u>\$ 33,016</u>	<u>\$ 1,250</u>	<u>\$ 31,766</u>

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).

(7) Right-of-use assets and Lease liabilities

A. Leasing arrangements – lessee

Effective 2019

(a) 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.

(b) The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>September 30, 2019</u>	<u>Jan.1~Sep. 30, 2019</u>
	Carrying amount	Depreciation charge
Land	\$ 31,848	\$ 6,690
Buildings	49,720	35,650
Machinery and	19,816	11,901

equipment		
Transportation(Business vehicles)	50,397	17,113
Total	<u>\$ 151,781</u>	<u>\$ 71,354</u>

(c) For the nine-month periods ended September 30, 2019, the additions to right-of-use assets were NT\$66,650 thousand.

(d) The information on income and expense accounts relating to lease contracts is as follows:

	<u>Jul1~Sep.30,2019</u>	<u>Jan.1~Sep.30,2019</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 921	\$ 2,671
Expense on short-term lease contracts	\$ 2,469	\$ 7,104

(e) For the nine-month periods ended September 30, 2019, the Group's total cash outflow for leases were NT\$73,241 thousand.

B. Lease liabilities

	<u>September 30, 2019</u>	<u>December 31, 2018(Note)</u>	<u>September 30, 2018(Note)</u>
Current	\$ 77,283		
Noncurrent	75,230		
Total	<u>\$ 152,513</u>		

(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 and machinery and equipment. 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 nine-month periods ended September 30, 2019, the Group recognised rent income in the amount of NT\$9,539 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 September 30, 2019 and 2018 were as follows:

	<u>Goodwill</u>	<u>Computer software</u>	<u>Total</u>
<u>2019</u>			
January 1, 2019	\$ —	\$ 41,575	\$ 41,575
Addition	—	17,216	17,216
Reclassification	—	—	—
Amortization expenses	—	(23,147)	(23,147)
Impairment	—	—	—
Exchange difference, net	—	—	—

September 30, 2019	\$ —	\$ 35,644	\$ 35,644
	<u>Goodwill</u>	<u>Computer software</u>	<u>Total</u>
2018			
January 1, 2018	\$ —	\$ 41,424	\$ 41,424
Addition	—	20,136	20,136
Reclassification	—	—	—
Amortization expenses	—	(19,231)	(19,231)
Impairment	—	—	—
Exchange difference, net	—	(12)	(12)
September 30, 2018	\$ —	\$ 42,317	\$ 42,317

	Goodwill		
	September 30, 2019	December 31, 2018	September 30, 2018
Cost	\$ 45,533	\$ 45,533	\$ 45,533
Accumulated impairment	(45,533)	(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 non-current assets) for the three-month and nine-month ended September 30, 2019 and 2018, respectively, were stated as the following items in the comprehensive income statement:

	Jul.1~Sep.30, 2019	Jul.1~Sep.30, 2018	Jan.1~Sep.30, 2019	Jan.1~Sep.30, 2018
Operating cost	\$ 6,835	\$ 8,042	\$ 22,940	\$ 24,337
Operating expense	8,947	8,285	24,144	24,969
Total amortization expenses	\$ 15,782	\$ 16,327	\$ 47,084	\$ 49,306

B. R&D expenditure

Research and development expenditures are recognized as Operating-Research and development, which represented NT\$174,081 thousand, NT\$240,556 thousand, NT\$ 532,948 thousand and NT\$611,601 thousand for the three-month and nine-month periods ended September 30, 2019 and 2018, respectively.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Prepayments for equipment	\$ 72,875	\$ 51,399	\$ 58,939
Refundable deposit	22,871	23,820	22,956
Deferred Charges	41,639	59,860	63,055

Total	\$ 137,385	\$ 135,079	\$ 144,950
-------	------------	------------	------------

The costs of Deferred Charges, amortization, and the impairment loss of the Group as of and for the ended of September 30, 2019 and 2018 were as follows:

	Deferred Charges		Deferred Charges	
January 1, 2019	\$ 59,860	January 1, 2018	\$ 80,984	
Addition	5,759	Addition	11,781	
Reclassification	—	Reclassification	—	
Amortization expenses	(23,937)	Amortization expenses	(30,075)	
Reclassifications	—	Reclassifications	1,378	
Impairment	—	Impairment	—	
Exchange difference, net	(43)	Exchange difference, net	(1,013)	
September 30, 2019	\$ 41,639	September 30, 2018	\$ 63,055	

(10) Short-term loan

Nature	September 30, 2019		December 31, 2018		September 30, 2018	
	Amounts	Interest rates	Amounts	Interest rates	Amounts	Interest rates
Credit loan	\$ 450,000	0.85%~ 1.01%	\$ 200,000	0.90%	\$ 160,000	0.90%
Secured borrowings	250,000	1.01%	618,000	0.89% ~0.90%	858,000	0.89% ~0.90%
Total	\$ 700,000		\$ 818,000		\$ 1,018,000	

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

	September 30, 2019	December 31, 2018	September 30, 2018
Payable expenses	\$ 438,269	\$ 594,077	\$ 448,521
Payable employees' remuneration	28,998	35,644	17,491
Short-term employee benefits	52,724	33,033	33,898
Payable stock dividends	—	—	—
Others	24,184	16,529	14,159
Total	\$ 544,175	\$ 679,283	\$ 514,069

(12) Reserve for liabilities

	Warranty		Warranty		Warranty
At January 1, 2019	\$ 4,859	At January 1, 2018	\$ 3,210	At January 1, 2018	\$ 3,210
Provision made/(Payment)	759	Provision made/(Payment)	1,649	Provision made/(Payment)	487
At September 30, 2019	\$ 5,618	At December 31, 2018	\$ 4,859	At September 30, 2018	\$ 3,697
Current	\$ 5,618	Current	\$ 4,859	Current	\$ 3,697
Non-current	-	Non-current	-	Non-current	-
At September 30, 2019	\$ 5,618	At December 31, 2018	\$ 4,859	At September 30, 2018	\$ 3,697

The Group's reserve for warranty and liabilities for the year ended September 30, 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

	September 30, 2019	December 31, 2018	September 30, 2018
The convertible bonds issued in 2018	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Bonds transferred to common stock	(1,000)	—	—
Less : Convertible corporate bonds repayment due	—	—	—
Less : Buy back from open market	(36,700)	(34,800)	
Less: Discount of bonds payable	(60,803)	(72,357)	(78,860)
Corporate bonds-payable, net	<u>\$ 901,497</u>	<u>\$ 892,843</u>	<u>\$ 921,140</u>
Current	\$ —	\$ —	\$ —
Non-current	901,497	892,843	921,140
Total	<u>\$ 901,497</u>	<u>\$ 892,843</u>	<u>\$ —</u>
Embedded derivative- Financial (Assets) liability	4,330	\$ 9,266	7,400
Equity element	<u>\$ 67,480</u>	<u>\$ 67,683</u>	<u>\$ 70,123</u>

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 (September 30, 2019), the accumulation of the 4th domestic unsecured conversion of corporate bonds had been issued 14 thousand shares with face value of NT\$1,000 thousand, and recognized NT\$864 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 <u>(Issuing date)</u>
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	<u>\$ 919,095</u>

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 September 30, 2019 and 2018 were NT\$4,921 thousand and NT\$ (1,000) thousand.
- (b) The Group recognized interest expense of convertible bonds were NT\$ 11,344 thousand and NT\$ 2,045 thousand start from January to September 30, 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 nine-month ended September 30, 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 and reduce capital reserve from stock warrants NT\$133 thousand, recognized in gain on repurchase of convertible bonds NT\$82 thousand in 2019 (stated as other revenue-others).

(14) Long-term Loans

<u>Lender</u>	<u>Nature</u>	<u>Amount</u>	<u>Period</u>	<u>September 30, 2019</u>
Land Bank -East Shichu Branch	Secured bank borrowings	\$ 600,000	2017.11.28~2020.11.28	\$ - (Note)
Land Bank -East Shichu Branch	Secured bank borrowings	\$ 163,000	2009.03.02~2022.03.02	- (Note)
Less: Long-term Loans payable-current portion				-

Long-term Loans, net	\$ -
Interest rates for long-term loans	-

(Note) The above loan has been repaid in advance.

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 partially repaid in advance.

Lender	Nature	Amount	Period	September 30, 2018
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 600,000	2017.11.28~2020.11.28	43,126
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 201,000	2015.09.30~2020.09.30	- (Note)
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 163,000	2009.03.02~2022.03.02	32,645
Less: Long-term Loans payable-current portion				(29,233)
Long-term Loans, net				\$ 46,538
Interest rates for long-term loans				1.28 %~1.42%

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 (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 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 September 2019, the balance of the pension funds contributed to the special pension fund account at Bank of Taiwan was NT\$75,905 thousand.

- (b) For the aforementioned pension plan, the Group recognized pension costs of NT\$4,254 thousand and NT\$4,255 thousand dollars for the nine-month periods ended September 30, 2019 and 2018, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the next annual reporting period as at September 30, 2019 is NT\$4,380 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\$47,503 thousand and NT\$45,783 thousand for the nine-month periods ended September 30, 2019 and 2018.

(16) EQUITY

- A. The Company's outstanding common stock at beginning and ending is reconciled as follows:

	<u>Jan.1~Sep.30,2019</u>	<u>2018</u>	<u>Jan.1~Sep.30,2018</u>
At January 1	79,901,388	79,901,388	79,901,388
Convertible Bonds Transferred To Common Stock	13,986	—	—
At September 30	<u>79,915,374</u>	<u>79,901,388</u>	<u>79,901,388</u>

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:

	September 30, 2019	December 31, 2018	September 30, 2018
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note1)</u>			
Common stock premium	\$ 210,163	\$ 210,163	\$ 210,163
Convertible corporate bond conversion premium	594,805	593,941	593,941
Treasury Stock Transactions	58,623	58,604	58,236
<u>May be used to offset a deficit only (Note2)</u>			
Donation from shareholders	1	1	1
Invalidated employee shareholding pledging	27,005	27,005	27,005
<u>Such capital surplus may not be used for any purpose</u>			
Others-issuance of new shares due to acquisition of shares of another company	19,858	19,858	19,858
Stock option (Elements of equity of convertible corporate bonds)	67,480	67,683	70,123
Total	<u>\$ 977,935</u>	<u>\$ 977,255</u>	<u>\$ 979,327</u>

(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 September 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 September 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 September 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 September 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 : N/A

E. Share-based payment — employee compensation plan

As of September 30, 2019, information on outstanding ESO is shown below: None.

(17) OPERATING INCOME

A. Operating income

	<u>Jul1~Sep. 30, 2019</u>	<u>Jul1~Sep. 30, 2018</u>	<u>Jan.1~Sep. 30, 2019</u>	<u>Jul1~Sep. 30, 2018</u>
Revenue from contracts with customers				
Sales revenue	\$ 1,397,673	\$ 1,480,656	\$ 3,819,512	\$ 3,470,963
Processing Fees revenue	66,227	86,564	172,758	244,515
Others				
Commission revenue	1,891	(256)	2,483	46,563
Lease revenue	1,571	—	1,571	—
Total	<u>\$ 1,467,362</u>	<u>\$ 1,566,964</u>	<u>\$ 3,996,324</u>	<u>\$ 3,762,041</u>

H. 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:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Contract liability-current			
Sales revenue received in advance	\$ 721,277	\$ 940,903	\$ 927,757
Total	<u>\$ 721,277</u>	<u>\$ 940,903</u>	<u>\$ 927,757</u>

Revenue of the contract liability recognized in the beginning:

	<u>Jul1~Sep. 30, 2019</u>	<u>Jul1~Sep. 30, 2018</u>	<u>Jan.1~Sep. 30, 2019</u>	<u>Jan.1~Sep. 30, 2018</u>
At January 1				
Revenue recognized in this period				
Sales revenue received in advance transfer to revenue	\$ 98,379	\$ 117,154	\$ 495,713	\$ 448,737
Total	<u>\$ 98,379</u>	<u>\$ 117,154</u>	<u>\$ 495,713</u>	<u>\$ 448,737</u>

(18) NON-OPERATING INCOME AND EXPENSES

A. Other gains and losses, net

	<u>Jul1~Sep30, 2019</u>	<u>Jul1~Sep30, 2018</u>	<u>Jan.1~Sep30, 2019</u>	<u>Jan.1~Jun30, 2018</u>
Gains (losses) on disposal of property, plant and equipment	\$ 1,971	\$ 231	\$ 1,980	\$ 270
Disposal of investment income under equity method	—	1,733	—	13,141
Net gains (losses) on financial liabilities at fair value through profit or loss	962	(1,000)	4,921	(1,000)
Net currency exchange gains (losses)	(4,614)	(344)	9,407	15,543
Others	(1,205)	(181)	(1,351)	(376)
Total	<u>\$ (2,886)</u>	<u>\$ 439</u>	<u>\$ 14,957</u>	<u>\$ 27,578</u>

The instructions related to disposal of investment income please see Note 6 (5) details.

B. Financial cost

	<u>Jul1~Sep.30, 2019</u>	<u>Jul1~Sep.30, 2018</u>	<u>Jan.1~Sep.30, 2019</u>	<u>Jan.1~Jun30, 2018</u>
Interest expense				
Bank borrowings	\$ 1,465	\$ 4,432	\$ 5,330	\$ 15,511
The convertible bonds issued in 2014	3,795	2,045	11,344	2,045
Interest of Financial Leasing	921	152	2,671	472
subtotal	<u>6,181</u>	<u>6,629</u>	<u>19,345</u>	<u>18,028</u>
Less: capitalisation of qualifying assets	—	—	—	—
Total	<u>\$ 6,181</u>	<u>\$ 6,629</u>	<u>\$ 19,345</u>	<u>\$ 18,028</u>
Capitalized interest rate	<u>0.76%~1.63%</u>	<u>0.91%~1.88%</u>	<u>0.76%~1.63%</u>	<u>0.91%~1.88%</u>

(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:

	<u>Jul1~Sep.30, 2019</u>	<u>Jul1~Sep.30, 2018</u>	<u>Jan.1~Sep.30, 2019</u>	<u>Jan.1~Sep.30, 2018</u>
Current tax:				
Current tax on profits for the period	\$ 28,871	\$ 22,740	\$ 70,280	\$ 41,050
Adjustments in respect of prior years	17	(6)	(1,760)	436
Total current tax	<u>28,888</u>	<u>22,734</u>	<u>68,520</u>	<u>41,486</u>
Deferred tax:				
Origination and reversal of temporary differences	(7,244)	1,694	(23,576)	(2,015)
Impact of change in tax rate	—	—	—	(10,131)
Total deferred tax	<u>(7,244)</u>	<u>1,694</u>	<u>(23,576)</u>	<u>(12,146)</u>
Income tax expense	<u>\$ 21,644</u>	<u>\$ 24,428</u>	<u>\$ 44,944</u>	<u>\$ 29,340</u>

B. The Group recognized Income tax expenses in other comprehensive income are NT\$ 0 start from January to September, at 2019 and 2018.

C. The income tax expenses recognized under the title of equity are NT\$0 start from January to September, at 2019 and 2018.

D. The investment credit tax on deferred income tax assets which has been recognized by the Company before September 30, 2019 shall be credited by the following deadline:

<u>Item</u>	<u>Total tax credits</u>	<u>Deducted amount</u>	<u>Credited balance in current period</u>	<u>Balance to be credited</u>	<u>Final year tax credits are due</u>
Research and development-2019	\$ 42,117	\$ —	\$ 27,738	\$ —	None
	<u>\$ 42,117</u>	<u>\$ —</u>	<u>\$ 27,738</u>	<u>\$ —</u>	

(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.

E. Authorization of income tax:

	Year
MPI Corporation	2017
Chain-Logic International Corp.	2017
Allstron Corp	2017

F. 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 assessed the impact of the change in income tax rate.

(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.

I. The Company's basic EPS and diluted EPS are calculated as follows:

	Jul.1~ Sep.30, 2019			Jul.1~ Sep.30, 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	\$ 142,012	79,910	\$ 1.79	\$ 128,977	79,901	\$ 1.61
Diluted EPS						
Net profit attributed to the Company's common stock shareholders	\$ 142,012	79,910		\$ 128,977	79,901	
Effect of all potential diluted common stocks (Note)						
4th domestic unsecured convertible corporate bond	—	13,906		—	13,986	
Employee stock bonus	—	462		—	220	
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$ 142,012	94,278	\$ 1.52	\$ 128,977	94,107	\$ 1.37

(Note) The Group was a loss from April to September in 2018. The inclusion of potential common stock would have an anti-dilution effect, so it should not be included.

	Jan 1~ Sep 30, 2019			Jan 1~ Sep 30, 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	\$279,983	79,910	\$ 3.50	\$175,917	79,901	\$ 2.20
Diluted EPS						
Net profit attributed to the Company's common stock shareholders	\$279,983	79,910		\$175,917	79,901	
Effect of all potential diluted common stocks						
4th domestic unsecured convertible corporate bond	—	13,906		—	13,986	
Employee stock bonus	—	462		—	283	
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$279,983	94,278	\$ 2.97	\$175,917	94,170	\$ 1.87

For the details about capital increase, please see Note 6(16).

(21) Employee benefits, depreciation, depletion and amortization expenses are summarized as follow

Nature	Function	Jul.1~ Sep30, 2019			Jul.1~ Sep30, 2018		
		Operation cost	Operation expense	Total	Operation cost	Operation expense	Total
Employee benefit expense							
Wages and salaries		215,639	195,690	411,329	203,957	186,419	390,376
Labor and health insurance expense		15,526	13,837	29,363	14,704	11,024	25,728
Pension costs		10,020	7,842	17,862	9,334	7,349	16,683
Director remuneration		—	2,611	2,611	—	3,810	3,810
Other personnel expense		21,340	6,840	28,180	23,541	6,061	29,602
Depreciation		97,810	28,497	126,307	91,483	26,297	117,780
Amortization		6,835	8,947	15,782	8,042	8,285	16,327
Nature	Function	Jan.1~ Sep 30, 2019			Jan.1~ Sep 30, 2018		
		Operation cost	Operation expense	Total	Operation cost	Operation expense	Total

Employee benefit expense						
Wages and salaries	652,256	551,507	1,203,763	631,967	540,550	1,172,517
Labor and health insurance expense	46,430	38,442	84,872	43,116	33,508	76,624
Pension costs	29,917	21,840	51,757	27,197	22,841	50,038
Director remuneration	—	4,531	4,531	—	4,919	4,919
Other personnel expense	65,541	19,523	85,064	68,850	20,281	89,131
Depreciation	314,273	82,548	396,821	278,041	79,666	357,707
Amortization	22,940	24,144	47,084	24,337	24,969	49,306

(Note) The other employee benefit expenses are 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(16).

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:

If 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. For the three-month and nine-month periods ended September 30, 2019 and 2018, employees remuneration(bonus) was accrued at NT\$14,576 thousand, NT\$13,546 thousand, NT\$28,998 thousand and NT\$17,491 thousand, respectively, and directors' and supervisors' remuneration was accrued at NT\$4,177 thousand, NT\$3,135 thousand, NT\$7,249 thousand and NT\$4,121 thousand, respectively. The aforementioned amounts were recognized as salary expenses. The expense recognized for 2018 were accrued based on the earnings of current 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 thousand, 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:

	<u>Jan.1~Sep.30, 2019</u>	<u>Jan.1~Sep.30, 2018</u>
Purchase of fixed assets	\$ 173,753	\$ 179,109
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	(21,532)	(11,939)
Less: ending balance of lease obligations payable	-	(35,465)
Cash paid during the period	<u>\$ 174,943</u>	<u>\$ 268,239</u>

B. Financing activities not affecting cash flow:

	<u>Jan.1~Sep.30, 2019</u>	<u>Jan.1~Jun30, 2018</u>
Convertible bonds being converted to capital stocks	\$ 140	\$ -

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

<u>Names of related parties</u>	<u>Relationship with the Company</u>
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	Jul1~Sep.30,2019	Jul1~Sep.30,2018	Jan.1~Sep.30,2019	Jan.1~Sep.30,2018
Sale of goods:				
-The Company's director				
MJC	\$ -	\$ 31	\$ -	\$ 31
Sale of labor services:				
-The Company's director				
MJC	-	-	-	45,590
Total	\$ -	\$ 31	\$ -	\$ 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. Receivable accounts-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:

January to September, at 2019: None.

Names of related parties	Investee company	January 1 ~ September 30 ,2018		
		Sales	Book value	Gain on sell of investments
The Company's director-MJC	MMK	\$ 82,710	\$ 71,302	\$ 11,408

F. Financing from related party (stated as other payable accounts-related party): 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	September30, 2019	December 31, 2018	September30, 2018
Advance sales receipts			
-The Company's director			
MEC	\$ -	\$ 265	\$ 265
Total	\$ -	\$ 265	\$ 265

(c) Receipts under custody (stated as other current liabilities) : None.

(d) Manufacturing expenses (stated as operating cost) : None.

(e) Selling expenses : None.

(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:

	Jul1~Sep. 30, 2019	Jul1~Sep. 30, 2018	Jan.1~Sep 30, 2019	Jan.1~Sep. 30, 2018
Salary and other short-term employee benefits	\$ 2,303	\$ 2,383	\$ 7,768	\$ 7,787
Resignation benefits	—	—	—	—
Retirement benefits	—	—	—	—
Other long-term benefits	—	—	—	—
Share-based payments	—	—	—	—
Total	\$ 2,303	\$ 2,383	\$ 7,768	\$ 7,787

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:

	September 30, 2019	December 31, 2018	September 30, 2018
Land	\$ 770,963	\$ 770,963	\$ 770,963
Buildings	838,065	857,912	864,528
Pledged demand deposit (stated as other current assets)	9,407	6,096	—
Pledged time deposit (stated as other current assets)	3,613	3,579	3,568
Total	\$ 1,622,048	\$ 1,638,550	\$ 1,639,059

9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: N/A.

(2) Commitment:

A. Balance of unused letter of credit issued by the Group, guarantee money paid and service charges: N/A.

B. The outstanding capital expenditure amount under the purchase orders signed is stated as following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Purchases of property, plant and equipment	\$ 366,387	\$ 2,012	\$ 7,358

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 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 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.
- (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 sixty months ago at maturity.

The income expenses for said two lots of long-term operating leased were stated as NT\$17,931 thousand for the year ended September 30, 2018. The future payable rent for important long-term operating lease is stated as follows:

	<u>September 30, 2018</u>
Less than one year	\$ 23,531
One year to five years	52,684
More than five years	<u>5,854</u>
Total	<u>\$ 82,069</u>

10. Significant disaster loss: N/A.

11. Significant subsequent events: N/A.

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 September 30, 2019, December 31, 2018 and September 30, 2018 are stated as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Total liabilities	\$ 3,515,632	\$ 4,073,267	\$ 4,098,150
Total net worth	4,233,751	4,116,931	3,974,769
Debt/equity ratio	83%	99%	103%

(2) Financial instruments by category

A. The financial instruments of the group are stated as follows:

- (a) Financial assets: Financial assets measured at fair value through profit including cash and cash equivalents, notes receivable, accounts receivable, other

receivables, guarantee deposits paid and other financial assets.

- (b) Financial liabilities: Financial liabilities measured at fair value through profit including short-term loans, notes payable, accounts payable, other payables, 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 currencies, 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 and Euro.

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:

September 30, 2019				
	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
Financial assets	NTD/USD	\$ 8,340	31.10900	\$ 259,445
	NTD/JPY	\$ 1,301	0.28546	\$ 371
	NTD/EUR	\$ 1,419	33.87200	\$ 48,052
	NTD/RMB	\$ 11,355	4.43960	\$ 50,413
	NTD/KRW	\$ 3,568	.0.02610	\$ 93
	NTD/HKD	\$ 15	3.90400	\$ 58
	NTD/MYR	\$ 13	7.12200	\$ 94
	NTD/SGD	\$ 19	22.34500	\$ 423
	NTD/THB	\$ 3	0.98590	\$ 3
	NTD/CHF	\$ 1	31.06000	\$ 42
	NTD/PHP	\$ 78	0.59170	\$ 46
	NTD/GBP	\$ 94	38.19297	\$ 3,607
	Financial liabilities	NTD/USD	\$ 5,137	31.48600
NTD/JPY		\$ 9,646	0.28980	\$ 2,796
NTD/EUR		\$ 488	34.14600	\$ 16,677
NTD/RMB		\$ 1	4.48800	\$ 3
NTD/GBP		\$ 1	38.41000	\$ 52
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	30.68400	\$ 760,645

	NTD/JPY	\$ 6,382	0.27810	\$ 1,774
	NTD/EUR	\$ 648	35.10900	\$ 22,778
	NTD/RMB	\$ 30,177	4.45110	\$ 134,323
	NTD/KRW	\$ 5,255	0.02775	\$ 145
	NTD/HKD	\$ 15	3.86300	\$ 59
	NTD/SGD	\$ 12	22.35500	\$ 276
	NTD/MYR	\$ 5	7.11200	\$ 36
	NTD/THB	\$ 2	0.91860	\$ 2
	NTD/CHF	\$ 1	30.98000	\$ 41
	NTD/GBP	\$ 1	38.73000	\$ 41
	NTD/INR	\$ 9	0.43480	\$ 4
	NTD/PHP	\$ 15	0.57710	\$ 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

				September 30, 2018			
				Amount in	Applicable	Book value	
				foreign	foreign	(NTD)	
				currency	exchange rate,	(thousand	
				(thousand	ending	dollars)	
				dollars)	(Dollar)	dollars)	
				Currency unit			
Financial assets	NTD/USD	\$ 23,867	30.4990	\$ 727,918			
	NTD/JPY	\$ 3,176	0.2691	\$ 855			
	NTD/EUR	\$ 772	35.406	\$ 27,339			
	NTD/RMB	\$ 29,244	4.4171	\$ 129,175			
	NTD/KRW	\$ 3,744	0.02774	\$ 104			
	NTD/HKD	\$ 8	3.84300	\$ 31			
	NTD/MYR	\$ 31	7.09900	\$ 217			
	NTD/SGD	\$ 21	22.2330	\$ 478			
	NTD/THB	\$ 3	0.91390	\$ 2			
	NTD/CHF	\$ 1	31.0700	\$ 42			
	NTD/PHP	\$ 16	0.55750	\$ 9			
Financial liabilities	NTD/USD	\$ 2,125	31.03600	\$ 65,952			
	NTD/JPY	\$ 31,296	0.27120	\$ 8,488			
	NTD/EUR	\$ 268	35.6800	\$ 9,550			
	NTD/GBP	\$ 3	40.0090	\$ 115			

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\$9,407 thousand and NT\$15,543 thousand until September 30, 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, 2018, September 30, 2019 and 2018 are stated as following:

September 30, 2019		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-5,438 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/-1,750 thousand

December 31, 2018		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-23,379 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/- 2,216 thousand

September 30, 2018		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-24,063 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/-2,734 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.

- ③ 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.
- ④ For the year ended September 30, 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.
- ⑤ 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.
- ⑥ Guarantee
According to the Group's policy, the Group may only make financial guarantee for the subsidiaries wholly owned by the Group. Before September 30, 2019, December 31, 2018 and September 30, 2018, the Group has never made any endorsements/guarantees.
- ⑦ 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.
- ⑧ 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.
- ① 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.
- ② 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 September 30, 2019, 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 allowance 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\$1,800,000 thousand on September 30, 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.

Non-derivative financial liabilities	September 30, 2019			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ 700,000	\$ -	\$ -	\$ 700,000
Payable accounts (including related party)	367,406	-	-	367,406
Other payable accounts (including related party)	565,707	-	-	565,707
Lease Liability	77,823	75,230	-	152,513
Long-term loan (including the current portion)	-	-	-	-
Corporate bond payable	-	-	901,497	901,497
Total	\$ 1,710,396	\$ 75,230	\$ 901,497	\$ 2,687,123

Non-derivative financial liabilities	December 31, 2018			Total
	Within 1 year	1~2 years	More than 2 years	
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

Non-derivative financial liabilities	September 30, 2018			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ 1,018,000	\$ -	\$ -	\$ 1,018,000
Payable accounts (including related party)	498,499	-	-	498,499
Other payable accounts	526,008	-	-	526,008

(including related party)				
Long-term loan	29,233	29,233	17,305	75,771
(including the current portion)				
Corporate bond payable			921,140	921,140
Rent payable	15,762	15,762	3,941	35,465
Total	<u>\$ 2,087,502</u>	<u>\$ 44,995</u>	<u>\$ 942,386</u>	<u>\$ 3,074,883</u>

(2) 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. A market 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 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.

	<u>September 30, 2019</u>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets	—	—	—	—
Financial liabilities				
Bonds payable (including current portion)	\$ 901,497	—	\$ 901,497	—
	<u>December 31, 2018</u>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets	—	—	—	—
Financial liabilities				
Bonds payable (including current portion)	\$ 892,843	—	\$ 892,843	—
	<u>September 30, 2018</u>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets	—	—	—	—
Financial liabilities	—	—	—	—
Bonds payable (including current portion)	\$ 921,140		921,140	

ⓑ 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:

	September 30, 2019			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Assets				
Recurring fair value measurements	—	—	—	—
Non-recurring fair value measurements	—	—	—	—
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss—non-current convertible bonds option	\$ 4,330	—	\$ 4,330	—

	December 31, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Assets				
Recurring fair value measurements	—	—	—	—
Non-recurring fair value measurements	—	—	—	—
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss—non-current convertible bonds option	\$ 9,266	—	\$ 9,266	—

	September 30, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Assets				
Recurring fair value measurements	—	—	—	—
Non-recurring fair value measurements	—	—	—	—
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss—non-current convertible bonds option	\$ 7,400	—	\$ 7,400	—

ⓑ 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 : 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 September 30, 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~ September 2019
1	Loans to others	N/A
2	Endorsement/guarantees made for others	N/A
3	Marketable securities-ending	N/A
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.	N/A
5	Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
6	Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
7	Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital.	N/A
8	Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital.	N/A
9	Transactions of derivative instruments.	N/A
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. For the year ended September 30, 2019

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	\$ 37,337	Note 4	1%
				Receivable accounts	\$ 17,192	Note 6	-
				Advance sale receipts	\$ 8,518	Note 4	-

				Other receivable accounts	\$ 1,082	Note 8	-
				Rent revenue	\$ 2,885	Note 7	-
				Other gains (losses)	\$ 455	Note 4	-
				Administrative and general expenses – other expenses, less	\$ 11	Note 7	-
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sales revenue	\$ 1,455	Note 4	-
				Receivable accounts	\$ 40,832	Note 6	1%
				Other gains (losses)	\$ 12,144	Note 4	-
				Other receivable accounts	\$ 11,981	Note 8	-
0	MPI Corporation	MPI AMERICA INC.	1	Sales revenue	\$ 329,681	Note 4	8%
				Receivable accounts	\$ 287,840	Note 6	4%
				Advance sale receipts	\$ 34,509	Note 4	-
				Others gains (losses)	\$ 4,423	Note 4	-
0	MPI Corporation	MPI (SUZHOU) CORPORATION	1	Sales revenue	\$ 141,529	Note 4	4%
				Receivable accounts	\$ 165,182	Note 6	2%
				Other receivable accounts	\$ 41,784	Note 8	1%
				Other gains (losses)	\$ 16,791	Note 4	-
1	Chain-Logic International Corp.	MPI Corporation	2	Sales revenue	\$ 9,271	Note 4	-
				Receivable accounts	\$ 8,028	Note 6	-
				Revenue from commission	\$ 44,192	Note 5	1%
				Receivable Commission	\$ 68,884	Note 6	1%
				Other receivable accounts	\$ 119	Note 8	-
				Other gains (losses)	\$ 227	Note 4	-
1	Chain-Logic International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 185	Note 4	-
				Receivable accounts	\$ 59	Note 6	-
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 2,014	Note 5	-
				Receivable Commission	\$ 694	Note 6	-
1	Chain-Logic International Corp.	MPI (SUZHOU) CORPORATION	3	Sale revenue	\$ 7,506	Note 4	-
				Advance sale receipts	\$ 532	Note 4	-
				Receivable accounts	\$ 9,839	Note 6	-
1	Chain-Logic International Corp.	MPI AMERICA INC.	3	Sale revenue	\$ 11	Note 4	-

3	MEGTAS CO.,LTD.	MPI Corporation	2	Sale revenue	\$	120	Note 4	-
3	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sales revenue	\$	1,961	Note 4	-
				Receivable accounts	\$	778	Note 6	-
3	MEGTAS CO.,LTD.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$	1,845	Note 4	-
				Receivable accounts	\$	1,598	Note 6	-
4	MPI (SUZHOU) CORPORATION	MPI Corporation	2	Sales revenue	\$	17,918	Note 4	-
				Receivable accounts	\$	11,754	Note 6	-
				Revenue from commission	\$	9,679	Note 5	-
				Receivable Commission	\$	865	Note 6	-
4	MPI (SUZHOU) CORPORATION	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sales revenue	\$	8,576	Note 4	-
4	MPI (SUZHOU) CORPORATION	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$	48	Note 4	-
				Receivable accounts	\$	54	Note 6	-
5	MPI AMERICA INC.	MPI Corporation	2	Sales revenue	\$	242	Note 4	-
6	Lumitek (Changchou) Co. Ltd.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$	109	Note 4	-
				Receivable accounts	\$	355	Note 6	-
				Other receivable accounts	\$	365	Note 8	-

b. For the year ended September 30, 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	\$ 12,962	Note 4	—
				Receivable accounts	\$ 4,295	Note 6	—
				Advance sale receipts	\$ 1	Note 4	—
				Other receivable accounts	\$ 1,072	Note 8	—
				Rent revenue	\$ 2,867	Note 7	—
				Administrative and general expenses – other expenses, less	\$ 28	Note 7	—
				Other gains (losses)	\$ 279	Note 4	—
0	MPI Corporation	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sales revenue	\$ 859	Note 4	—
				Receivable accounts	\$ 164	Note 6	—
0	MPI Corporation	MEGTAS CO.,LTG	1	Interest revenue	\$ 52	Note 9	—
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sales revenue	\$ 3,530	Note 4	—
				Receivable accounts	\$ 63,167	Note 6	1%
				Other gains (losses)	\$ 26,702	Note 4	1%
				Other receivable accounts	\$ 25,810	Note 8	—
0	MPI Corporation	MPI AMERICA INC.	1	Sales revenue	\$ 301,449	Note 4	8%
				Receivable accounts	\$ 228,220	Note 6	3%
				Advance sale receipts	\$ 30,254	Note 4	—
				Others revenue	\$ 984	Note 4	—
0	MPI Corporation	MPI (SUZHOU) CORPORATION	1	Sales revenue	\$ 43,386	Note 4	1%
				Receivable accounts	\$ 23,402	Note 6	—
				Other receivable accounts	\$ 5,702	Note 8	—
				Other gains (losses)	\$ 4,970	Note 4	—
1	Chain-Logic International Corp.	MPI Corporation	2	Sales revenue	\$ 8,775	Note 4	—
				Receivable accounts	\$ 4,062	Note 6	—
				Revenue from commission	\$ 37,073	Note 5	1%
				Receivable Commission	\$ 79,808	Note 6	1%

				Other receivable accounts	\$ 192	Note 8	—
1	Chain-Logic International Corp	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sales revenue	\$ 25	Note 4	—
1	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$ 335	Note 4	—
				Receivable accounts	\$ 157	Note 6	—
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 2,574	Note 5	—
				Receivable accounts	\$ 1,004	Note 6	—
2	Chain-Logic International Corp.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 4,666	Note 4	—
				Receivable accounts	\$ 4,406	Note 6	—
				Advance sale receipts	\$ 175	Note 4	—
2	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$ 599	Note 4	—
2	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 851	Note 4	—
				Other receivable accounts	\$ 4,614	Note 8	—
3	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sales revenue	\$ 6,065	Note 4	—
				Receivable accounts	\$ 3,021	Note 6	—
3	MEGTAS CO.,LTD.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sales revenue	\$ 63	Note 4	—
				Receivable accounts	\$ 9	Note 6	—
3	MEGTAS CO.,LTD.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 817	Note 4	—
				Receivable accounts	\$ 643	Note 6	—
4	MPI (SUZHOU) CORPORATION	MPI Corporation	2	Sales revenue	\$ 1,445	Note 5	—
				Revenue from commission	\$ 4,127	Note 5	—
				Receivable Commission	\$ 12,657	Note 6	—
4	MPI (SUZHOU) CORPORATION	Chain-Logic International Corp.	3	Revenue from commission	\$ 5,926	Note 5	—
4	MPI (SUZHOU) CORPORATION	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sales revenue	\$ 23	Note 4	—
				Sales revenue maintenance	\$ 7,646	Note 4	—
4	MPI (SUZHOU) CORPORATION	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$ 69	Note 4	—
5	MPI AMERICA INC.	MPI Corporation	2	Other revenue	\$ 120	Note 4	—

6	Lumitek (Changchou) Co. Ltd.	MPI (SUZHOU) CORPORATION	3	Sales revenue-others	\$	272	Note 4
				Sales revenue-mainte nance	\$	154	Note 4
				Receivable accounts	\$	339	Note 6
				Others receivable account	\$	363	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 Jun 30. For income, it shall be shown as a Ratio of Shareholding to the consolidated Total incomes for the years ended on Jun 30.

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) Information about investees

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 September 30, 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%	\$ 62,968	\$ (449)	\$ (449)	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 (Note 4)	100%	\$ 483,538	\$ (41,117)	\$ (44,465)	Subsidiary of MPI Corporation
MPI Corporation	MEGTAS CO.,LTD.	134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-81 I, 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)	\$ 36,188	\$ (2,252)	\$ (1,775)	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%	\$ 204,060	\$ 12,126	\$ 13,742	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%	\$ 1,587	\$ (57)	\$ (57)	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%	\$ (103,088)	\$ (46,430)	\$ (46,430)	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%	\$ 18,742	\$ (7,644)	—	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%	\$ (104,516)	\$ (46,419)	—	Subsidiary of MPA TRADING CORP.

Note 1: Except MMI HOLDING CO., LTD., which recognized the investment income based on the financial statements reviewed by other external auditors, the investment income of the others were recognized based on the financial statements reviewed by the parent company's external auditors.

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: In order to meet the need for business expansion, 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 ~~W~~ 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\$ 4,567 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	USD 300,000 (\$12,683) (Note4)	(Note 1)	USD 1,400,000 (\$ 46,917)	-	USD 1,100,000 (\$ 34,234)	USD 300,000 (\$ 12,683)	\$ (7,653)	100 %	\$ (7,653)	\$ 13,406	\$ 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)	\$ (14,797)	100 %	\$ (14,797)	\$ 479,544	-

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)										
	Registered capital	(Note 2)	USD 2,000,000 (\$60,180)	-	-	USD 2,000,000 (\$60,180)	\$ (26,503)	100 %	\$ (26,503)	\$ 29,998	-	
	USD 3,000,000 (\$ 90,270)											

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: Except the financial statement of Lumitek (Changchou) Co. Ltd, which was reviewed by company's external auditors.,the investment income not recognized based on the financial statements reviewed by the parent company's external auditors was recognized under the equity method.

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. The Investment been approved by Commission on MOEA had the investment approved document.

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 (NTD 575,333)	USD 19,710,272.42 (NTD 620,418)	NTD 2,540,251

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 USD2,857,000 (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, and the amount of cash capital reduction has remitted to CHAIN-LOGIC TRADING CORP. in July, 2019. The amount 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 September 30, 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.