

MPI CORPORATION
Parent Company Only
Financial Statements for the Years Ended
December 31, 2019 and 2018
And Independent Auditors' Report

MPI CORPORATION

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Independent Auditor's Audit Report

The Board of Directors and Shareholders

MPI Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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1. Revenue Recognition

Matter Description

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

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

Audit Procedures in Response

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

- (1) Understood and tested the design and implementation efficiency of sales and receiving circulation control system.
- (2) Understood the major revenue type and trading terms of MPI Corporation to assess if the accounting policy of point in time for revenue recognition is appropriate.
- (3) Understood the product type and sales of the top 10 customers; sampled and reviewed the orders; assessed the influence of trading terms to revenue recognition; and confirmed if MPI Corporation has handled accounting relevant activities appropriately.
- (4) Evaluated if the number of days for turning over the sales revenue and payables; and analyzed changes to customers of this and last year at the same time point to see if there is any abnormality.
- (5) Implemented the detail test, where transactions of sales revenue before and after the financial statements within a specified period have been sampled to carry out the cut-off test and verify relevant certificates. Changes to the inventory in account books and transferred sales costs have been recorded during an appropriate period of period to evaluate the correctness of the period of recognizing the revenue, ensure if there is any abnormal revenue journal voucher, and understand if there is any grave refund or return after the period.

2. Inventory Valuation

Matter Description

Regarding the accounting policy of inventory valuation, please refer to (14) of Note 4 of Individual Financial Statements. Regarding significant accounting judgments, estimations, and assumptions of inventory valuation, please refer to Note 5 of Individual Financial Statements. Regarding

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

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

Audit Procedures in Response

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

- (1) With the CPA's knowledge of the industry and MPI Corporation's operations, evaluated the soundness of the Corporation's policies concerning the allowance for inventory valuation loss and doubtful debts.
- (2) Understood MPI Corporation's inventory management procedures, reviewed its annual inventory plan, and participated in its annual inventory check to evaluate the management's judgement and control efficiency of outdated inventories.
- (3) Acquired the list of product inventory age, verified the appropriateness of reporting system logic, and confirmed the consistency of report information and adopted policies.
- (4) Evaluated the appropriateness of the methods of calculating inventory valuation impairment, including deciding the inventory classification based on the net realizable value, checking individual material number to verify the basic assumption of the calculation in relevant supporting document, and verify the accuracy of calculation.

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Other Matter-Making Reference to the Audits of Component Auditors

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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Sun Rise CPAs & Company

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

March 26, 2020

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

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

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MPI CORPORATION
BALANCE SHEETS (ASSETS)
DECEMBER 31 ,2019 AND 2018

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

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

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

MPI CORPORATION
BALANCE SHEETS (LIABILITIES AND EQUITY)
DECEMBER 31, 2019 AND 2018

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

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

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

MPI CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
From January 1 to December 31, 2019 and 2018

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

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

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

MPI CORPORATION
STATEMENTS OF CHANGES IN EQUITY
From January 1 to December 31, 2019 and 2018

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

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

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

MPI CORPORATION
STATEMENTS OF CASH FLOWS
From January 1 to December 31, 2019 and 2018
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

(Continue)

MPI CORPORATION
STATEMENTS OF CASH FLOWS
From January 1 to December 31, 2019 and 2018
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

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

MPI CORPORATION

Notes to parent company only financial statements

January 1 to December 31, 2019 and 2018

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

1. Company profile

- (1) MPI Corporation (hereinafter referred to as the "Company") was founded according to the Company Law and other related laws on July 25, 1995. Upon capital increase for several times, the Company's paid-in capital has been NT\$799,587 thousand and outstanding stock has been 79,958,726 shares until December 31, 2019. Upon resolution of the special shareholders' meeting on June 12, 2018, the Company raised the authorized capital as NT\$1,200,000,000, divided into 120,000,000 shares at par value of NT\$10 per share. The board of directors is authorized to issue the stock in lots. NT\$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT\$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.
- (2) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.
- (3) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

2. Date and procedure for ratification of financial report

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

3. Application of new standards, amendments and interpretations

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019

Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs.

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

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

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

- (1) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
- (2) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

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

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

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

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

<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
Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest Rate Benchmark Reform'	January 1, 2020

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

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

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

<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
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

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

4. Summary of Significant Accounting Policies

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

(1) Statement of compliance

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

(2) Basis for preparation

A. Basis for measurement

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

- (1) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (2) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
- (3) Defined benefit liability stated based on the net after pension fund assets less the present value of defined benefit obligations.

B. Functional currency and presentation of currency

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

(3) Foreign currency

A. Foreign currency transactions

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

B. Foreign operations

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

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

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

(4) Current and non-current assets and liabilities

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

- A. Assets expected to be realized, or intent to be sold or consumed, in the Company's normal operating cycle;
- B. Assets primarily held for the purpose of trading;
- C. Assets expected to be realized within 12 months after the date of the balance sheet;
- D. Cash or cash equivalent, exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet.

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

- A. Liabilities expected to be repaid in the Company's normal operating cycle;
- B. Assets primarily held for the purpose of trading;
- C. Assets expected to be discharged within 12 months after the date of the balance sheet; and
- D. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet. Terms of a

liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalent

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

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

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

(9) Derecognition of financial assets

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

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

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

(a) Hybrid (combined) contracts; or

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

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

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

(11) Notes and accounts payable

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

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

(12) Convertible bonds payable

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

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

- B. The host contracts of bonds or are initially recognized at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortized in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.
- C. The embedded conversion options which meet the definition of an equity instrument are initially recognized in 'capital surplus—share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.
- E. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'capital surplus—share options'.

(13) Derecognition of financial liabilities

- A. A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.
- B. Where there has been a renegotiation or modification of the terms of an existing financial liability and resulted in an insignificant discrepancy which is less than ten percent of the estimated cash flows, the carrying amount of the liability is recalculated based on the modified cash flows discounted at the original effective interest rate. The gain or loss arising from the carrying amount after modification less the initial recognition of the financial liability is recognized in profit or loss.
- C. Where there has been a substantial renegotiation or modification of the terms of an existing financial liability and resulted in a significant discrepancy which is at least ten percent of the estimated cash flows, the carrying amount of the liability is recalculated based on the modified cash flows discounted at the original effective interest rate. The gain or loss arising from the carrying amount after modification less the initial recognition of the financial liability is recognized in profit or loss.

(14) Inventory

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

manufacturing expenses amortized based on the normal productivity on a pro rata basis.

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

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

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

(16) Investment accounted for using equity method - affiliates

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

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

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

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

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

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

(17) Investment in subsidiaries

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

If the change in all shareholders' equities of the subsidiaries does not cause the loss of dominant control of the company, handled as equity transactions with the shareholders. The subsidiary's financial statement shall be included into the consolidated financial statements as of the date of acquisition of the control is acquired, until the date of loss of the control.

(18) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. After cost

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

maintenance and repairs of property, plant and equipment shall be stated as income when incurred.

C. Depreciation

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

No depreciation of land is required.

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

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

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

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

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

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

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

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

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

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

Effective 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end

of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(21) Lease

Effective 2018

- A. None of the Company's lease terms and conditions has transferred the risk and return attached to the title of assets to the lessee. All of the leases are classified as operating leases. The income from lease shall be stated as income based on the straight line method within the related lease period. The lease payment shall be stated as expenses based on the straight line method within the related lease period. The contingent rent under operating lease shall be stated as expenses when it is incurred.
- B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.
 - (a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
 - (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
 - (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Company will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

(22) Intangible assets

A. Goodwill

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

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

B. Software

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

C. Internally generated intangible assets—research and development expenditures

- (a) Research expenditures are recognized as an expense as incurred.
- (b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:
 - Ⓐ It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - Ⓑ An entity intends to complete the intangible asset and use or sell it;
 - Ⓒ An entity has the ability to use or sell the intangible asset;
 - Ⓓ It can be demonstrated how the intangible asset will generate probable future economic benefits;
 - Ⓔ Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; And
 - Ⓕ The expenditure attributable to the intangible asset during its development can be reliably measured.

(23) Impairment of non-financial assets

- A. The Company will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization without impairment.
- B. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face value. The impairment loss on goodwill shall not be reversed in following years.
- C. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit Company expected to benefit from the merger of businesses generating the goodwill.

(24) Reserve for liabilities

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

The Company's reserve for liabilities for warranty shall be recognized when the goods or services are sold. The reserve for liabilities shall be measured under

weighted method based on the historical warranty information and potential results subject to the relevant possibility.

(25) Treasury stock

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

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

(26) Revenue recognition

A. Sales of goods

- (a) The Company manufactures and sells a range of semi-conductor production process and testing equipments in the market. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.
- (b) The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.
- (c) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Labor service

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

C. Financing components

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

D. Incremental costs of obtaining a contract

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

(27) Borrowings

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

(28) Government subsidies

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

(29) Employee benefits

A. Short-term employee benefits

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

B. Pension

(a) Defined contribution plan

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

(b) Defined benefit plan

- Ⓐ The net obligation under the defined benefit pension plan is converted to the present value based on the future benefit earned from the services provided by the employees under various benefit plans in the current period or in the past, and the present value of defined benefit obligations on the balance sheet date less the fair value of the planned assets. An actuary using the Projected Unit Credit Method estimates defined benefit obligations each year. The discount rate shall be based on the market yield rate of corporate bonds of high credit standing that have the same currency exposure and maturity date as the obligations on the balance sheet date, but the market yield rate of government bonds (on the balance sheet date) shall apply in the country where no market of corporate bonds of high credit standing is available.
- Ⓑ The re-measurement generated from the defined benefit plan is stated as other comprehensive income in the period when it is incurred, and presented in the retained earnings.
- Ⓒ The expenses related to the service cost in the previous period shall be recognized as income immediately.
- Ⓓ The interim pension cost applied the pension cost ratio decided upon actuation at the end of the previous fiscal year, and was calculated from the beginning of year until the end of the current period. In the case of material changes in market and material reduction, repayment or other important event at the end, it shall be adjusted and related information shall be disclosed pursuant to said policies.

C. Resignation benefits

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

D. Remuneration to employee and directors/supervisors

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

(30) Employees' share-based payment

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

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

(31) Income tax

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

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

C. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction (exclusive of business merger) shall not be recognized; insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable

temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Company and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.

- D. Deferred income tax assets shall be recognized, insofar as temporary difference is very likely to credit against future taxable income, and deferred income tax assets which are recognized and unrecognized shall be re-evaluated on each balance sheet date.
- E. Current income tax assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. Unused tax credits derived from purchase of equipment or technology, R&D expenditure and equity investment can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against.
- G. The average effective tax rate used to estimate the interim income tax expenses shall apply to the interim income before tax, and the relevant information shall be disclosed pursuant to said policies.
- H. If a change in tax rate is enacted or substantively enacted in an interim period, the Company recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(32) Business combination

- A. The Company adopts the acquisition method to proceed with business combination. The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be issued. The consideration for the transfer includes the fair value of any assets and liabilities generated from the contingent consideration agreement. The cost related to acquisition is stated as expense when it is incurred. The identifiable assets and

liabilities acquired from the business combination shall be measured at the fair value on the day of acquisition. Based on individual acquisition transaction, the elements of non-controlling equity which refer to the current ownership, of which the holder is entitled to the business's net assets on a pro rata basis at the time of liquidation may choose to measure the fair value based on the fair value on the date of acquisition or subject to proportion of non-controlling equity in the acquired identifiable net assets. The other elements of non-controlling equity shall be measured at the fair value on the date of acquisition.

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

(33) EPS

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

(34) Information by department

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

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

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

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

(1) Revenue recognition on a net/gross basis

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

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

- (a) The Company is primarily responsible for the provision of goods or services;
- (b) The Company assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer.
- (c) The Company has discretion in establishing prices for the goods or services.

B. Critical accounting estimates and assumptions

(1) Allowance for uncollectible accounts of receivable accounts

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

(2) Evaluation of inventory

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

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

(3) Realizability of deferred income tax assets

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

(4) Recognition of revenue

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

(5) Calculation of net defined benefit liability

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

6. Notes to Major Accounting Titles

(1) Cash and cash equivalents

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

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

(2) Note receivables, net : None.

(3) Accounts receivable, net

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	\$ 948,488	\$ 689,184
Less: Allowance for uncollectible accounts	(18,369)	(9,993)
Accounts receivable, net	<u>\$ 930,119</u>	<u>\$ 679,191</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable -related party	\$ 459,453	\$ 311,470
Less: Allowance for uncollectible accounts	—	—
Accounts receivable -related party, net	<u>\$ 459,453</u>	<u>\$ 311,470</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Receivable on demand (stated as other non-current assets)	\$ 392	\$ 72
Less: Allowance for uncollectible accounts	(392)	(72)
Receivable on demand, net	<u>\$ —</u>	<u>\$ —</u>

- A. All account receivables of the company are accrued from business operation and have not been pledged as collaterals.
- B. For the information about the changes of allowance for uncollectible accounts provided for the impairment on receivable accounts and account age analysis on loans (for the disclosure of credit risk, please see Note 12(2)):

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

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

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

The above ageing analysis was based on past due date.

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

(4) Inventories

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

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

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

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

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

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

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

A. Changes in investment under equity method:

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

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

Refer to the consolidated financial statements of FY2019

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

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

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

The financial statements of subsidiary MPI AMERICA INC. in FY2019 and FY2018 were audited by other certified public accountants. We did not audit these statements and based on the statements audited by other certified public accountants to recognize investment (loss) amounting to NT\$(60,344) thousand and NT\$(50,513) thousand, respectively.

F. The Company acquired 100% of the shares of Allstron Corporation ("Allstron") in March 2014 and controlled the company in whole.

Goodwill Impairment Charges

Upon the discussion of the management and report to the Board of Directors on March 24 of 2017, the Company has, according to the forecasted cash flow of Allstron Probing Solution, recognized the difference between the investment cost of

the original investment day and the net equity value in the goodwill impairment loss with a value of NT\$45,533 thousand for the year of 2016.

- G. Company management board has on December 28, 2017 voted on a resolution to sell the entire shareholdings of the affiliated enterprise – MJC Microelectronics (Kunshan) Co., Ltd. of the group’s subsidiary MMI Holding Co., Ltd to Japanese MJC Corporation (MJC is the parent firm of MJC Microelectronics (Kunshan) Co., Ltd.), and the two parties agree to set the total shareholding transfer transaction to the sum of RMB 18,000 thousand (at approximately NT\$81,927 thousand, when calculated at the exchange rate of 4.5515 on Dec. 31, 2017), and planned to complete the liquidation proceedings in the next 12 months. The group has reclassified its investment held in MJC Microelectronics (Kunshan) Co., Ltd.’s book value amount totaling NT\$71,302 thousand to under the non-liquid asset item on its combined balance sheet as of December 31, 2017.

On December 28, 2017, the Board of Directors meeting approved selling MMK (Kunshan) and sold on March 23, 2018. The distribution of surplus a total of NT\$82,710 thousand was remitted. The Investment been approved by Commission on MOEA had the investment approved document. The original book value was NT\$71,302 thousand. After writing off and transferring foreign currency translation reserve of financial report in the foreign operating institution, MMI HOLDING CO., LTD will recognize the disposal of investment gain NT\$9,208 thousand.

- H. MMI HOLDING CO., LTD., a subsidiary of the Group, transferred subsidiary MJC Microelectronics (Shanghai) Co., Ltd. completed the liquidation on August 31, 2018 and remitted the liquidation amount of NT\$28,081 thousand (excluding the income tax NT\$651 thousand), the recognition of the investment benefit is NT\$1,733 thousand. The Investment been approved by Commission on MOEA had the investment approved document.
- I. The Company invested MMI HOLDING CO., LTD., on April 25, 2018, the Board of Directors meeting approved reducing the cash capital US\$2,857,000(equivalent to NT\$84,006 thousand); on September 11, 2018, the Board of Directors meeting approved reducing the cash capital US\$936,870(equivalent to NT\$28,669 thousand).
- J. On August 15, 2018, the Company passed the liquidation of WANG-TONG CORP., which was liquidated and written off on September 14, 2018, and remitted the surplus investment of NT\$4 thousand.
- K. In order to coordinate the corporation’s operating program and promote the efficiency of capital usage, the Group has reported to the board of directors to takeover 20% of equity on MEGTAS CO., LTD. In ₩5,000 per share on November 8, 2018. The total investment cost is NT\$13,861 thousand and the date of the takeover is on October 5, 2018. Besides the company will takeover 100,000 shares,

and the shareholding ratio will increase from 60% to 80%. The difference between consideration paid and carrying amount of subsidiaries acquired was NT\$4,576 thousand.

L. Guarantee

As of December 31, 2019 and 2018, the company had not pledged its investment accounted for under the equity method as collaterals.

(6) Property, plant and equipment

A. The changes in the cost, depreciations and impairments of the property, plant and equipment of the Company in FY2019 and FY2018:

	Land	House and building	Machine & equipment	Furniture and fixtures	Research equipment	Other equipments	Construction in progress	Total
Cost:								
January 1, 2019	\$ 770,963	\$ 1,541,747	\$ 918,638	\$ 51,995	\$ 749,427	\$ 11,046	\$ 18,543	\$ 4,062,359
Addition	-	620	11,704	10,305	6,189	-	214,571	243,389
Disposition	-	-	(131,368)	(15,251)	(52,777)	(2,455)	-	(201,851)
Transfer	-	-	59,893	329	7,045	-	-	67,267
December 31, 2019	<u>\$ 770,963</u>	<u>\$ 1,542,367</u>	<u>\$ 858,867</u>	<u>\$ 47,378</u>	<u>\$ 709,884</u>	<u>\$ 8,591</u>	<u>\$ 233,114</u>	<u>\$ 4,171,164</u>
Cost:								
January 1, 2018	\$ 770,963	\$ 1,453,346	\$ 857,577	\$ 61,349	\$ 768,172	\$ 11,397	\$ 57,571	\$ 3,980,375
Addition	-	19,196	21,950	10,637	3,516	627	31,555	87,481
Disposition	-	-	(32,588)	(20,182)	(52,848)	(1,019)	-	(106,637)
Transfer	-	69,205	71,699	191	30,587	41	(70,583)	101,140
December 31, 2018	<u>\$ 770,963</u>	<u>\$ 1,541,747</u>	<u>\$ 918,638</u>	<u>\$ 51,995</u>	<u>\$ 749,427</u>	<u>\$ 11,046</u>	<u>\$ 18,543</u>	<u>\$ 4,062,359</u>
Depreciation and impairment:								
January 1, 2019	\$ -	\$ 349,945	\$ 465,904	\$ 28,060	\$ 425,725	\$ 8,236	\$ -	\$ 1,277,870
Depreciation	-	67,935	135,333	11,821	103,578	1,412	-	320,079
Disposition	-	-	(125,907)	(15,236)	(51,674)	(2,454)	-	(195,271)
Transfer	-	-	(38)	-	-	-	-	(38)
December 31, 2019	<u>\$ -</u>	<u>\$ 417,880</u>	<u>\$ 475,292</u>	<u>\$ 24,645</u>	<u>\$ 477,629</u>	<u>\$ 7,194</u>	<u>\$ -</u>	<u>\$ 1,402,640</u>
Depreciation and impairment:								
January 1, 2018	\$ -	\$ 285,663	\$ 356,595	\$ 33,557	\$ 365,679	\$ 7,437	\$ -	\$ 1,048,931
Depreciation	-	64,282	137,825	14,673	112,894	1,818	-	331,492
Disposition	-	-	(28,118)	(20,170)	(52,848)	(1,019)	-	(102,155)
Transfer	-	-	(398)	-	-	-	-	(398)
December 31, 2018	<u>\$ -</u>	<u>\$ 349,945</u>	<u>\$ 465,904</u>	<u>\$ 28,060</u>	<u>\$ 425,725</u>	<u>\$ 8,236</u>	<u>\$ -</u>	<u>\$ 1,277,870</u>
Net book value								
December 31, 2019	<u>\$ 770,963</u>	<u>\$ 1,124,487</u>	<u>\$ 383,576</u>	<u>\$ 22,733</u>	<u>\$ 232,255</u>	<u>\$ 1,397</u>	<u>\$ 233,114</u>	<u>\$ 2,768,524</u>
December 31, 2018	<u>\$ 770,963</u>	<u>\$ 1,191,802</u>	<u>\$ 452,734</u>	<u>\$ 23,935</u>	<u>\$ 323,702</u>	<u>\$ 2,810</u>	<u>\$ 18,543</u>	<u>\$ 2,784,489</u>

B. The Company signed the contract with the non-related party about the new construction of Zhubei third factory at Zhubei City Tai Ho Section, in September 2019. The total contract amount was NT\$465,000 thousand.

C. Guarantee

For details about the secured long-term loan and facility until December 31, 2019 and 2018, please see Note 8.

D. For the capitalized interest, please see Note 6(18) 2. Financial cost.

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

A. Leasing arrangements – lessee

Effective 2019

(a) The Company leases various assets including land, buildings, machinery and equipment, business vehicles. Rental contracts are typically made for periods of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

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

	<u>December 31, 2019</u>	<u>Jan.1~Dec. 31, 2019</u>
	Carrying amount	Depreciation charge
Land	\$ 30,494	\$ 9,083
Buildings	26,836	34,538
Transportation(Business vehicles)	33,604	14,645
Total	<u>\$ 90,934</u>	<u>\$ 58,266</u>

(c) For the year ended in 2019, the additions to right-of-use assets were NT\$60,206 thousand.

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

	<u>Jan.1~Dec. 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 1,804
Expense on short-term lease contracts	\$ 4,953

(e) For the year ended in 2019, the Company's total cash outflow for leases were NT\$59,374 thousand.

B. Lease liabilities

	<u>December 31, 2019</u>	<u>December 31, 2018(Note)</u>
Current	\$ 45,256	
Noncurrent	46,372	
Total	<u>\$ 91,628</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 Company leases various assets including part of office buildings. Rental contracts are typically made for periods within one year. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes.

(b) For the year ended in 2019, the Company recognized rent income in the amount of NT\$14,434 thousand, based on the operating lease agreement, which does not include variable lease payments.

(8) Intangible assets

The cost, amortization and impairment of intangible assets of the Company in FY2019 and FY2018 are shown below:

	<u>Computer software</u>		<u>Computer software</u>
January 1, 2019	\$ 41,237	January 1, 2018	\$ 40,955
Addition	25,410	Addition	25,960
Reclassification	-	Reclassification	-
Amortization expenses	(32,198)	Amortization expenses	(25,678)
December 31, 2019	<u>\$ 34,449</u>	December 31, 2018	<u>\$ 41,237</u>

A. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other noncurrent assets) 2019 and 2018 were stated as the following items in the comprehensive income statement:

	<u>2019</u>	<u>2018</u>
Operating cost	\$ 19,704	\$ 22,665
Operating expense	29,721	27,032
Total amortization expenses	<u>\$ 49,425</u>	<u>\$ 49,697</u>

B. R&D expenditure

In FY2019 and FY2018, the R&D spending deriving from intangible assets internally developed amounted to NT\$700,653 thousand and NT\$869,002 thousand, respectively, recognized under the title of “Operating expenses –R&D expenses” in the comprehensive income statement.

(9) Other non-current assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Prepayments for equipment	\$ 51,168	\$ 50,681
Refundable deposit	26,271	18,760
Deferred Charges	22,750	31,800
Total	<u>\$ 100,189</u>	<u>\$ 101,241</u>

The costs of Deferred Charges, amortization, and the impairment loss of the Company as of and for the ended of December 31, 2019 and 2018 were as follows:

	<u>Deferred Charges</u>		<u>Deferred Charges</u>
January 1, 2019	\$ 31,800	January 1, 2018	\$ 37,510
Addition	8,177	Addition	16,931
Reclassification	—	Reclassification	1,378
Amortization expenses	(17,227)	Amortization expenses	(24,019)
Impairment	—	Impairment	—
December 31, 2019	<u>\$ 22,750</u>	December 31, 2018	<u>\$ 31,800</u>

(10) Short-term loan

Nature of loan	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Amount</u>	<u>Interest rate</u>	<u>Amount</u>	<u>Interest rate</u>
Credit loan	-	-	\$ 200,000	0.90%
Secured borrowings	\$ 500,000	0.89%	618,000	0.89% ~0.90%
Total	<u>\$ 500,000</u>		<u>\$ 818,000</u>	

1. For the information about exposure of the Company's interest rate and liquidity risks, please refer to Note 12(2).
2. Collateral for bank loan.

For bank loans secured by the Company's assets, please see Note 8.

(11) Other accounts payable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Expenses payable	\$ 528,808	\$ 548,770
Employees' remuneration payable	43,950	34,144
Short-term employee benefits	49,247	33,032
Others (all less than 5%)	15,437	9,604
Total	<u>\$ 637,442</u>	<u>\$ 625,550</u>

(12) Reserve for liabilities

	<u>Warranty</u>		<u>Warranty</u>
Balance, January 1, 2019	\$ 4,859	Balance, January 1, 2018	\$ 3,210
Increase (decrease)	1,713	Increase (decrease)	1,649
Balance, December 31, 2019	<u>\$ 6,572</u>	Balance, December 31, 2018	<u>\$ 4,859</u>
Current	\$ 6,572	Current	\$ 4,859
Non-current	-	Non-current	-
Balance, December 31, 2019	<u>\$ 6,572</u>	Balance, December 31, 2018	<u>\$ 4,859</u>

The provision for warranty liabilities of the company in 2019 and 2018 was mainly related to the sales of semiconductor production process and test equipment. The provision for warranty liabilities is estimated on the basis of historical data on warranty. The Company expected most of the liabilities would be realized in the year after the sales.

(13) Corporate bonds-payable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total amount of 4th domestic unsecured convertible corporate bond	\$ 1,000,000	\$ 1,000,000
Less: Conversion amount	(4,000)	-
Less: Convertible corporate bonds expired	-	-
Less : Buy back from open market	(36,700)	(34,800)
Less: Corporate bond discount	(56,815)	(72,357)
Corporate bond payable, net	<u>\$ 902,485</u>	<u>\$ 892,843</u>
Current	\$ -	\$ -
Non-current	902,485	892,843
Total	<u>\$ 902,485</u>	<u>\$ 892,843</u>

Embedded financial derivatives - financial liabilities (assets)	\$ 384	\$ 9,266
Elements of equity	<u>\$ 67,269</u>	<u>\$ 67,683</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 (December 31, 2019), the accumulation of the 4th domestic unsecured conversion of corporate bonds had been issued 57 thousand shares with face value of NT\$4,000 thousand, and recognized NT\$3,465 thousand as Capital Surplus-Additional Paid-In Capital-Bond Conversion.

C. The Company analyzed the 4th domestic unsecured convertible corporate bonds according to IFRS No.7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively. The information about convertible corporate bonds in the financial statements is stated as following:

	August 15, 2018 <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) The "gain (loss) from financial assets and liabilities at fair value through profit or loss" was NT\$8,867 thousand and NT\$(3,200) thousand in 2019 and 2018.
- (b) The Company recognized interest expense of convertible bonds were NT\$15,155 thousand and NT\$5,935 thousand start from January to December, at 2019 and 2018.
- E. (a) Till December 31, 2018, the 4th unsecured convertible bonds in the amount of NT\$34,800 thousand were repurchased by the company from open market, buy back price is NT\$ 33,030 thousand that is shared to liabilities and equity with difference between book value, is recognized as capital surplus-treasury stock transaction NT\$368 thousand, recognized in gain on repurchase of convertible bonds NT\$1,564 thousand in 2018 (stated as other revenue-others).
- (b) Till December 31, 2019, the 4th unsecured convertible bonds in the amount of NT\$1,900 thousand were repurchased by the company from open market, buy back price is NT\$1,802 thousand that is shared to liabilities and equity with difference between book value, is recognized as capital surplus-treasury stock transaction NT\$19 thousand, recognized in gain on repurchase of convertible bonds NT\$82 thousand in 2019(stated as other revenue-others).

(14) Long-term Loans

<u>Bank</u>	<u>Nature</u>	<u>Limit</u>	<u>Duration</u>	<u>December 31, 2019</u>
Chang Hwa Bank - Chengnei Branch	Mortgage loan	\$ 1,134,880	2019/11/08~2029/10/15	\$ 142,208
Less: current portion				-
Total				\$ 142,208
Interest rate range				0.88 %

<u>Bank</u>	<u>Nature</u>	<u>Limit</u>	<u>Duration</u>	<u>December 31, 2018</u>
Land Bank of Taiwan - Tungshinchu Branch	Mortgage loan	\$ 574,000	2017/11/28~2020/11/28	\$ 38,150 (Note)
Land Bank of Taiwan - Tungshinchu Branch	Mortgage loan	\$ 201,100	2015/09/30~2020/09/30	- (Note)
Land Bank of Taiwan - Tungshinchu Branch	Mortgage loan	\$ 163,000	2009/03/02~2022/03/02	30,313
Less: current portion				(29,233)
Total				\$ 39,230
Interest rate range				1.28 %~1.42 %

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

- A. Information on the exposure of interest risk and liquidity risks of the company is shown in Note 12 (2).
- B. Collateral for bank loan.
The company pledged its assets under lien as collaterals for the security of loans from the banks. Related information is shown in Note 8.

(15) Pension Benefits

A. Defined benefit plan

(a) The Company has established the regulation for retirement with welfare in accordance with the “Labor Standards Act”, which is applicable to the years of service for full-time employees before the implementation of the “Labor Pension Act” on July 1 2005, and the employees continued to adopt the “Labor Standards Act” after the “Labor Pension Act” has come into effect. Employees who meet the retirement requirements will be paid the pension based on their years of service and average salary or wage of the last six (6) months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The company contributes at 2% of the total salary on a monthly basis to the pension fund and deposit at the special pension account under the title of the Pension Reserve Monitoring Committee at the Bank of Taiwan. As of December 2019, the balance of the pension contribution in the special account at the Bank of Taiwan amounted to NT\$67,285 thousand.

(b) The amount recognized in the balance sheet is stated as following:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligation	\$ 96,609	\$ 94,471
Fair value of planned assets	(67,285)	(55,369)
Net defined benefit liability	<u>\$ 29,324</u>	<u>\$ 39,102</u>

(c) Changes in the present value of defined benefit obligation:

	2019	2018
Present value of defined benefit obligation, January 1	\$ 94,471	\$ 83,621
Service cost in current period	5,109	5,121
Interest cost	1,228	1,296
Actuarial loss/gain		
Actuarial loss (gain) from changes of financial hypotheses	2,711	3,382
Empirical adjustment	(6,910)	5,179
Benefit payment-from planned assets	-	(4,128)
Present value of defined benefit obligation, December 31	<u>\$ 96,609</u>	<u>\$ 94,471</u>

(d) Changes in fair value of planned assets:

	2019	2018
Fair value of planned assets, January 1	\$ 55,369	\$ 51,924
Interest revenue	747	835
Return (loss) on remuneration of planned assets	1,819	1,212
Contribution by employer	9,350	5,526
Benefit payment-from planned assets	-	(4,128)
Fair value of planned assets, December 31	<u>\$ 67,285</u>	<u>\$ 55,369</u>

(e) Total expenses recognized in comprehensive income statement:

	<u>2019</u>	<u>2018</u>
Service cost in current period	\$ 5,109	\$ 5,121
Interest cost of defined benefit obligation	1,228	1,296
Interest revenue from planned assets	(747)	(835)
Defined benefit cost stated into income	<u>\$ 5,590</u>	<u>\$ 5,582</u>

(f) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and Article 6 of the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Any deficits thereof shall be made up by the national treasury upon approval of the competent authority. As the Company was not entitled to participate in operation and management of the Fund, it was not impossible for the Company to disclose the classification of fair value of the planned assets in accordance with Paragraph 142 of Article 19 of IAS. For the fair value of the total assets under the Fund on December 31, 2019 and 2018, please see the labor pension fund utilization report published by the government each year.

(g) Actuarial hypotheses about pension are summarized as following: (expressed under weighted average method)

	<u>2019</u>	<u>2018</u>
Discount rate	1.10%	1.30%
Future salary and benefit level	2.25%	2.25%

Until December 31, 2019, the weighted average duration of the pension plan has been 17.5 years.

(h) Analysis of sensitivity

In the calculation of the determined welfare obligation, the company must make use of judgment and estimate to determine relevant actuarial assumption on the reporting date, including the discount rate and update of future salary. Any change in the actuarial assumption may cause the amount of the determined welfare obligation of the company at significant level. Any change in the actuarial assumption will affect the amount of determined welfare obligation of the company.

- (i) The variance in the estimation of discount rate and future salary level increase rate from the management will affect the book value of pension benefit obligation in the following manners:

	Discount rate		Future raise rate	
	Increase by 0.25%	Decrease by 0.25%	Increase by 1.00%	Decrease by 1.00%
December 31, 2019				
Effect on defined benefit obligation %	<u>(3.49%)</u>	<u>3.65%</u>	<u>15.34%</u>	<u>(13.05%)</u>
Amount of effect on defined benefit obligation	<u>\$ (3,372)</u>	<u>\$ 3,526</u>	<u>\$ 14,820</u>	<u>\$ (12,607)</u>
December 31, 2018				
Effect on defined benefit obligation %	<u>(3.58%)</u>	<u>3.75%</u>	<u>15.86%</u>	<u>(13.44%)</u>
Amount of effect on defined benefit obligation	<u>\$ (3,382)</u>	<u>\$ 3,543</u>	<u>\$ 14,983</u>	<u>\$ (12,697)</u>

Said analysis of sensitivity refers to the analysis of the effect produced by any change of single hypothesis under the circumstance that the other hypotheses remain unchanged. In practice, a lot of changes in hypotheses might be linked with each other. The analysis of sensitivity adopted the same method used for calculation of net pension liability on the balance sheet.

The methods and hypotheses used by the analysis of sensitivity prepared in the current period are identical with those used in the previous period.

- (j) The Company is expected to contribute NT\$3,397 thousand to the Plan in the reporting period of next year.

B. Defined contribution plans

- (a) With effect on July 1, 2005, the company has established the regulation for the contribution of pension fund in accordance with the “Labor Pension Act” which is applicable to employees of ROC nationality. For the employees electing to adopt the “Labor Pension Act” for retirement, the company allocates 6% of the respective monthly salary to their individual personal pension account at Labor Insurance Bureau. Pension will be disbursed on the basis of the deposit in the personal pension account with accumulated return payable monthly or in lump sum.
- (b) In FY2019 and FY2018, the Company has recognized pension expenses amounted to NT\$54,080 thousand and NT\$52,763 thousand in accordance with the regulation for determination of pension allocation.

(16) EQUITY

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

	<u>2019</u>	<u>2018</u>
Balance, January 1	79,901,388	79,901,388
Corporate bond conversion	57,338	-
Balance, December 31	<u>79,958,726</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:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<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
Convertible corporate bond conversion premium	597,406	593,941
Treasury stock trading	58,623	58,604
<u>May be used to offset a deficit only (Note2)</u>		
Donation from shareholders	1	1
Invalidated employee shareholding pledging	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
Stock option (Elements of equity of convertible corporate bonds)	67,269	67,683
Total	<u>\$ 980,325</u>	<u>\$ 977,255</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 Company issued last time Domestic unsecured convertible corporate bonds; The company recognized NT\$49,759 thousand as paid-in capital in excess of par-common stock.
- ⓓ The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in June 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT\$1 thousand.
- ⓔ The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. on June 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT\$19,858 thousand on the date of investment, stated as capital surplus-others.

C. Retained earnings

- (a) According to the company laws amended in May 2015, employee remuneration and remuneration to directors/supervisors shall not be allocated from earnings any longer. The Company has had the amended Articles of Incorporation resolved and approved by the board of directors on June 16, 2016. Therefore, if the Company has a profit at the year's final accounting, it shall first pay profit-seeking enterprise income tax and make up any losses from past years, and then make contribution of 10% of the balance to the statutory reserve, unless the statutory reserve reaches the amount of the Company paid-in capital, and also make provision/reversal of special reserves pursuant to laws. The residual balance shall be added to undistributed earnings carried from previous years. The Board shall draft a motion for allocation of the residual balance plus the undistributed earnings, and submit the same to a shareholders' meeting to resolve whether shareholder bonus shall be allocated or the earnings shall be retained.
- (b) The shareholders' meeting resolved to amend the Company Act of Incorporation as following on June 17, 2011: For the time being, the

Company's industrial development is still growing, the dividend policy requires that the board of directors shall draft the motion for allocation of earnings each year and submit the same to a shareholders' meeting for ratification, subject to the Company's present and future investment environments, funding demand, status of competition domestically/overseas and capital budget and by taking care of shareholders' interest, balanced stock dividend and the Company's long-term financial planning into consideration. The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.

(c) Legal reserve

According to the Company Law amended in January 2012, the Company shall contribute 10% from the income after tax as the legal reserve until it is equivalent to the gross capital. When the Company suffers no loss, new shares or cash may be allocated from the legal reserve upon resolution of the shareholders' meeting, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

(d) Special reserve

Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company provided special reserve NT\$11,921 thousand to shareholders from earnings 2018 on June 11, 2019.

The Company provided special reserve NT\$12,131 thousand to shareholders from earnings 2017 on June 12, 2018.

(e) The Company resolved to allocate the cash dividend, NT\$159,803 thousand (NT\$ 2 per share) by the shareholders' meetings from earnings 2018 on June 11, 2019.

The Company resolved to allocate the cash dividend, NT\$39,951 thousand (NT\$0.5 per share) by the shareholders' meetings from earnings 2017 on June 12, 2018.

(f) The information about allocation of retained earning approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(g) For the information about remuneration to employees and remuneration to directors/supervisors, please see Note 6(21).

D. Treasury stock : None.

F. Share-based payment — employee compensation plan

As of December 31, 2019, information on outstanding ESO is shown below: None.

(17) OPERATING INCOME

A. Operating income

	<u>2019</u>	<u>2018</u>
Revenue from contracts with customers		
Sales revenue	\$ 4,880,918	\$ 4,658,630
Processing Fees revenue	—	—
Others		
Commission revenue	—	45,590
Total	<u>\$ 4,880,918</u>	<u>\$ 4,704,220</u>

B. Contract assets and contract liability

The Company recognized the contract assets and contract liability of the revenue from contracts with customers as following:

(a) Contract assets: None.

(b) Contract liability as following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Contract liability-current		
Sales revenue received in advance	\$ 628,423	\$ 854,750
Total	<u>\$ 628,423</u>	<u>\$ 854,750</u>

Revenue of the contract liability recognized in the beginning:

	<u>2019</u>	<u>2018</u>
At January 1		
Revenue recognized in this period		
Sales revenue received in advance transfer to revenue	\$ 485,351	\$ 485,223
Total	<u>\$ 485,351</u>	<u>\$ 485,223</u>

(18) NON-OPERATING INCOME AND EXPENSES

A. Other gains and losses, net

	<u>2019</u>	<u>2018</u>
Gain (loss) from disposition of property, plant and equipment	\$ 4,990	\$ 5,669
Gain (debt) from financial assets and liabilities at fair value through profit or loss	8,867	(3,200)
Foreign currency exchange gain (loss), net	(26,727)	25,412
Gains(losses) on lease modification	(1)	-
Others	(1,090)	(530)
Total	<u>\$ (13,961)</u>	<u>\$ 27,351</u>

B. Financial cost

	<u>2019</u>	<u>2018</u>
Interest expenses		
Bank loan	\$ 7,114	\$ 17,895
Convertible corporate bond	15,155	5,935

Lease liabilities (Note)	\$ 1,804	-
Subtotal	24,073	23,830
Less: capitalized interest	(892)	(970)
Total	\$ 23,181	\$ 22,860
Capitalized interest rate	0.76%~1.63%	0.91%~1.88%

(Note) The company and its subsidiaries have elected to apply IFRS 16 by not restating the comparative periods on January 1, 2019.

(19) Income Tax

A. The detail of income tax expenses (benefits) of the company is shown below:

	<u>2019</u>	<u>2018</u>
Income tax in current period:		
Generated in the current period	\$ 85,731	\$ 56,845
Overestimated (underestimated) income tax in previous year	(2)	60
Total income tax in the current period	<u>85,729</u>	<u>56,905</u>
Deferred income tax		
Occurrence and reversal of temporary difference	(31,077)	(566)
Effect of changes in tax rate	-	(10,132)
Total deferred income tax	<u>(31,077)</u>	<u>(10,698)</u>
Total	<u>\$ 54,652</u>	<u>\$ 46,207</u>

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

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

D. Relations between income tax expenses (gains) and accounting profit

	<u>2019</u>	<u>2018</u>
Net profit (loss) before tax	\$ 483,022	\$ 380,769
Income tax on net profit before tax calculated at the domestic tax rate applicable in the place where the Company is situated	\$ 96,604	\$ 76,154
Income tax effect included into the items that shall not be recognized pursuant to tax laws	25,869	(2,388)
Income tax effect on deferred income tax assets/liabilities	(31,077)	(566)
Unrecognized deferred income tax assets	-	-
Tax-free income	-	-
Maximum foreign-tax deduction	-	-
Income tax effect on investment credit	(36,742)	(24,362)
Imposition of income tax on undistributed earnings	-	7,441
Income tax effect under minimum tax system	-	-
Overestimated (underestimated) income tax in previous year	(2)	60
Effect of changes in tax rate	-	(10,132)
Total	<u>\$ 54,652</u>	<u>\$ 46,207</u>

E. Deferred income tax assets and liabilities

(a) Recognized deferred income tax assets and liabilities

	2019				
	January 1	Recognized in income statement	Recognized in other comprehensive income	Exchange difference	December 31
Deferred income tax assets					
Temporary difference					
Unrealized inventory devaluation and obsolescence losses	\$ 50,702	\$ 10,681	-	-	\$ 61,383
Unrealized exchange loss	446	5,337	-	-	5,783
Unrealized warranty cost	972	376	-	-	1,348
Unrealized loss on valuation of nonfinancial asset	9,107	-	-	-	9,107
Unrealized gain on inter-affiliate accounts	12	923	-	-	935
Expected Credit (loss) gains	11,762	(3,786)	-	-	7,976
Tax difference on depreciation expenses	15	(1)	-	-	14
Realized net investment income (foreign)	8,133	-	-	-	8,133
Unrealized net investment income (foreign)	-	9,961	-	-	9,961
Total	\$ 81,149	\$ 23,491	-	-	\$ 104,640
Deferred income tax liabilities					
Temporary difference					
Unrealized exchange gain	\$ (489)	\$ 222	-	-	\$ (267)
Unrealized net investment income (foreign)	(8,117)	8,117	-	-	-
Recognition of pension expenses (deficit)	(4,434)	(753)	-	-	(5,187)
Total	\$ (13,040)	\$ 7,586	-	-	\$ (5,454)
	2018				
	January 1	Recognized in income statement	Recognized in other comprehensive income	Exchange difference	December 31
Deferred income tax assets					
Temporary difference					
Unrealized inventory devaluation and obsolescence losses	\$ 41,300	\$ 9,402	-	-	\$ 50,702
Unrealized exchange loss	1,736	(1,290)	-	-	446
Unrealized warranty cost	545	427	-	-	972
Unrealized loss on valuation of nonfinancial asset	7,741	1,366	-	-	9,107
Unrealized gain on inter-affiliate accounts	-	12	-	-	12

Expected Credit (loss) gains	13,754	(1,992)			11,762
Tax difference on depreciation expenses	13	2	-	-	15
Unrealized net investment income (foreign)	6,913	1,220	-	-	8,133
Total	\$ 72,002	\$ 9,147	-	-	\$ 81,149

Deferred income tax liabilities					
Temporary difference					
Unrealized exchange gain	\$ (278)	\$ (211)	-	-	\$ (489)
Unrealized net investment income (foreign)	(10,534)	2,417	-	-	(8,117)
Recognition of pension expenses (deficit)	(3,779)	(655)	-	-	(4,434)
Total	\$ (14,591)	\$ 1,551	-	-	\$ (13,040)

(b) Unrecognized deferred income tax assets : None.

(c) Unrecognized deferred income tax liabilities : None.

F. The investment credit tax on deferred income tax assets which has been recognized by the Company before December 31, 2019 shall be credited by the following deadline:

Item	Total credit	Deducted amount	Credited balance in current period	Balance to be credited	Last year of credit
R&D spending in FY2019	\$ 58,278	\$ —	\$ 36,742	\$ —	(non-deferred)
	<u>\$ 58,278</u>	<u>\$ —</u>	<u>\$ 36,742</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.

G Authorization of income tax:

The Company has its corporate income tax approved by the taxation authorities until 2017.

H. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate. Besides, the tax rate of undistributed earnings in 2018 was reduced from 10% to 5%.

(20) Earnings Per Common Share

A. Basic EPS

The basic EPS is calculated based on the income vested in the Company's common stock holders dividing by the weighted average number of outstanding common stock.

B. Diluted EPS

The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the weighted average number of outstanding common stock.

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

	2019			2018		
	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)
Basic EPS						
Net profit attributed to the Company's common stock shareholders	\$ 428,370	79,913	\$ 5.36	\$ 334,562	79,901	\$ 4.19
Diluted EPS						
Net profit attributed to the Company's common stock shareholders	\$ 428,370	79,913		\$ 334,562	79,901	
Effect of all potential diluted common stocks						
4th domestic unsecured convertible corporate bond	-	13,863		-	13,499	
Employee stock bonus	-	556		-	649	
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$ 428,370	94,332	\$ 4.54	\$ 334,562	94,049	\$ 3.56

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

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

Nature	Function	2019			2018		
		Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit expense							
Salary expense (including employees' compensation)		841,051	583,719	1,424,770	819,428	589,350	1,408,778
Labor/health insurance expenses		53,515	34,894	88,409	55,669	38,928	94,597
Pension expenses		34,770	24,900	59,670	33,196	25,149	58,345
Director remuneration		-	6,200	6,200	-	6,002	6,002
Other employee benefit expenses (Note)		88,869	18,844	107,713	89,324	21,787	111,111
Depreciation expenses		287,302	91,043	378,345	233,203	98,289	331,492
Depletion expenses		-	-	-	-	-	-
Amortization expenses		19,704	29,721	49,425	22,665	27,032	49,697

(Note) The other employee benefit expenses including meal expenses, overtime pay and workers' benefits.

- A. For the year ended of December 31, 2019 and 2018, The number of employees of the Company was 1,537 and 1,550, of which the number of directors who were not employees concurrently was 3 and 3 respectively.
- B. Companies which are listed in Taiwan Stock Exchange or Taipei Exchange should disclose the following information:
- (a) The average employee benefit expenses was NT\$1,100 thousand for the year ended 2019 [(total amount of employee benefit expenses – total amount of director remuneration) / (total number of employees – the number of directors who were not employees concurrently)].
- The average employee benefit expenses was NT\$1,085 thousand for the year ended 2018 [(total amount of employee benefit expenses – total amount of director remuneration) / (total number of employees – the number of directors who were not employees concurrently)].
- (b) The average salary expenses was NT\$929 thousand for the year ended 2019 [total amount of salary expenses / (total number of employees – the number of directors who did not have concurrent employees)].
- The average salary expenses was NT\$911 thousand for the year ended 2018 [total amount of salary expenses / (total number of employees – the number of directors who did not have concurrent employees)].
- (c) The adjustment change of average salary expenses was 1.98% [(the average salary expenses in 2019 – the average salary expenses in 2018) / the average salary expenses in 2018].
- C. According to the Company's existing articles of incorporation, the Company shall allocate remuneration to employees and remuneration to directors/supervisors when allocating the earnings. For the details about capital increase, please see Note 6(16).
- D. (a) The original articles of incorporation are as follows :
- Where the Company retains income before tax after the account settlement, it shall allocate 5%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.
- (b) The Company has approved the motion for amendments to the Articles of Incorporation on June 12, 2018:
- Where the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The

remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph. The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.

Employees' remuneration may be paid in the form of stock or in cash, and can be paid to employees of affiliated companies that satisfy certain criteria.

- E. The Company estimated the remuneration to employees was NT\$43,950 thousand and NT\$34,144 thousand, respectively, in 2019 and 2018, and the remuneration to directors/supervisors NT\$9,920 thousand and NT\$9,603 thousand. Said values were stated into salary expenses. The values were estimated based on the earnings gained until the current period (this year).
- F. The remuneration to employees and directors/supervisors 2018 resolved to be allocated at the shareholders' meeting on June 11, 2019 by the Board of Directors meeting were NT\$34,144 thousand and NT\$9,603 thousand, respectively, identical with that recognized in the financial statement 2018, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2019.
- G. The remuneration to employees and directors/supervisors 2017 resolved to be allocated at the shareholders' meeting on June 12, 2018 by the Board of Directors meeting were NT\$9,323 thousand and NT\$0 , respectively, identical with that recognized in the financial statement 2017, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2018.
- H. The information about remuneration to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(22) Supplemental cash flow information

A. Investing activities paid in cash in part only:

	<u>2019</u>	<u>2018</u>
Purchase of property, plant and equipment	\$ 311,199	\$ 188,684
Add: Payables for equipment, beginning	19,530	82,660
Less: Payables for equipment, ending	(65,720)	(19,530)
Cash paid in current period	<u>\$ 265,009</u>	<u>\$ 251,814</u>

B. Financing activities not affecting cash flow:

	<u>2019</u>	<u>2018</u>
Conversion of corporate bond conversion into capital stock	<u>\$ 573</u>	<u>\$ —</u>

7. Transactions with related parties

(1) Relations between parent company and subsidiary

The Company's subsidiaries are stated as follows:

	Place of incorporation	Owner's equity (shareholding %)	
		December 31, 2019	December 31, 2018
Chain-Logic International Corp.	Taiwan	100%	100%
Allstron Corporation	Taiwan	100%	100%
MPI TRADING CORP.	Samoa	100%	100%
MMI HOLDING CO.,LTD.	Samoa	100%	100%
MPA TRADING CORP.	Anguilla	100%	100%
CHAIN-LOGIC TRADING CORP.	Mauritius	100%	100%
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Mainland China	—	100%
Lumitek (Changchou) Co. Ltd.	Mainland China	100%	100%
MEGTAS CO.,LTD.	Korea	80%	80%
MPI AMERICA INC.	USA	100%	100%

(2) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

(3) The names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
CHAIN-LOGIC INTERNATIONAL CORP. (CLIC)	Subsidiary
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Subsidiary- a subsidiary of CLIC (liquidated in November 11, 2019)
MEGTAS CO.,LTD. (MEGTAS)	Subsidiary
Lumitek (Changchou) Co. Ltd.(LUMITC)	Subsidiary- a subsidiary of MMI HOLDING CO., LTD
MPI (SUZHOU) CORPORATION (MPS)	Subsidiary- a subsidiary of MMI HOLDING CO., LTD
MPI AMERICA INC. (MPA)	Subsidiary- a subsidiary of MPA TRADING CORP.
MICRONICS JAPAN CO., LTD (MJC)	The parent company of the affiliated enterprise
MJC Electronics Corporation (MEC)	The Company's director – a subsidiary of MJC
MMK (Kunshan)	Associates (Disposed in March , 2018)

(4) Important transactions with related parties

A. Operating revenue

The Company's sales values to related parties are stated as follows:

Type	2019	2018
Sale of products:		
-Essential related party		
MEC	\$ —	31

-Subsidiary		
CLIC	52,402	28,694
LUMITC	1,759	5,306
MPS	209,987	75,467
MPA	418,869	421,834
Others	—	1,703

Sale of labor services:

-Essential related party		
MJC	—	45,590
Total	\$ 682,837	\$ 578,625

The price of the Company's sale to related parties was not significantly different from the Company's general selling price.

B. Purchase

The Company's purchase values to related parties are stated as follows:

<u>Type</u>	<u>2019</u>	<u>2018</u>
Subsidiary		
CLIC	\$ 11,124	\$ 9,732
MPS	16,856	-
Total	\$ 27,980	\$ 9,732

The price of the Company's purchase from related parties was not significantly different from the Company's price of purchase from the general suppliers.

C. Accounts receivable-related parties

The Company's accounts receivable-related parties are stated as following:

<u>Title</u>	<u>Type</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	Subsidiary		
	CLIC	\$ 18,792	\$ 14,427
	LUMITC	480	64,617
	MPS	208,057	41,457
	MPA	232,124	190,159
	Others	-	810
Accounts receivable		459,453	311,470
Less: Loss allowance		-	-
Accounts receivable, net		\$ 459,453	\$ 311,470
Other accounts receivable	Subsidiary		
	CLIC	\$ 1,191	\$ 1,055
	LUMITC	14,354	12,318
	MPS	41,701	14,930
	Total	\$ 57,246	\$ 28,303

D. Accounts payable-related parties

The Company's accounts payable-related parties are stated as following:

<u>Title</u>	<u>Type</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable	Subsidiary-CLIC	\$ 3,627	\$ 2,972
	MPA	216	-
		\$ 3,843	\$ 2,972

Other accounts payable	Subsidiary		
	CLIC	20,916	99,759
	MPS	1,549	2,431
Total		<u>\$ 22,465</u>	<u>\$ 105,162</u>

E. Prepayment : None.

F. Exchange of property

a. Acquisition of property, plant, and equipment : None.

b. Disposition of property, plant, and equipment:

2019 :

<u>Related parties</u>	<u>Nature</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Sales price</u>	<u>Gain (loss) on disposal</u>
Subsidiaries- MPS	Machinery equipment	\$ 5,831	\$ (370)	\$ 5,461	\$ 9,727	\$ 4,266
	Office equipment	\$ 26	\$ (23)	\$ 3	\$ 34	\$ 31
	Research equipment	\$ 1,573	\$ (470)	\$ 1,103	\$ 1,796	\$ 693

2018 :

<u>Related parties</u>	<u>Nature</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Sales price</u>	<u>Gain (loss) on disposal</u>
Subsidiaries- MPS	Machinery equipment	\$ 24,949	\$ (19,816)	\$ 5,133	\$ 9,494	\$ 4,361

G. Loan to others (stated as other receivable accounts-related party)

2019: None.

2018:

<u>Type</u>	<u>Maximum balance</u>	<u>Balance ending</u>	<u>Interest rate %</u>	<u>Interest revenue</u>
Subsidiary-Megtas	\$ 4,629	\$ -	4.99%	\$ 52

H. Purchase of labor services from related parties

The Company's expenditure in labor services to related parties are stated as follows:

<u>Type</u>	<u>2019</u>	<u>2018</u>
Promotion-expenditure in commission:		
-Subsidiary		
CLIC	58,226	55,025
MPS	15,674	23,852
Total	<u>\$ 73,900</u>	<u>\$ 78,877</u>

I. Others

a. Payment on behalf of others (stated as other current assets): None.

b. Advance sale receipts

<u>Type</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Essential related party Director of the original Company)		
MEC	\$ -	\$ 265
Subsidiary		
CLIC	12,906	2,777
MPA	28,311	5,485
Total	<u>\$ 41,217</u>	<u>\$ 8,527</u>

c. Temporary receipts (stated as other current liabilities): None.

d. Manufacturing expenses (stated as operating cost)

Type	Nature	2019	2018
Subsidiary			
CLIC	Repair and maintenance expense	\$ 6	\$ —
MPS	Other expenses	\$ 1,721	\$ 1,672
Megtas	Consumables	\$ 123	\$ —
MPA	Shipping expense	\$ 14	\$ —

e. Selling expenses

Type	Nature	2019	2018
Subsidiary			
CLIC	Other expenses	\$ 739	\$ 1,088
MPS	Other expenses	\$ 27	\$ 154
MPA	Advertising Expenses	\$ -	\$ 121
MPA	Shipping expense	\$ 93	\$ -
MPA	Other expenses	\$ 135	\$ -

f. Management expenses

Type	Nature	2019	2018
Subsidiary			
CLIC	Dormitory fees paid by employees	\$ (9)	\$ (37)

g. Research expenses

Type	Nature	2019	2018
Subsidiary			
CLIC	Other expenses	\$ 2	\$ -

h. Lease

The Company's lease revenue from related parties is stated as follows:

Type	2019	2018
Subsidiary-CLIC	\$ 3,973	\$ 3,823

The main contents of lease contract:

Type	Subject matter	Duration of lease	Mode of collection
Subsidiary	Sublet the factory premises building and parking lots at Wenshan Road, Xinpu Township, Hsinchu County	2014/12/21~2017/12/20, Renewed automatically upon expiration, and resigned for 2019/01/01~2019/12/31,	NT\$242 thousand per month (before tax) The rent of parking lots was calculated subject to the actual service condition on a monthly basis.
Subsidiary	Rent the branch company office at Luchu, Kaohsiung City	2008/04/18~2009/04/17 Renewed automatically upon expiration, and resigned for 2019/01/01~2019/12/31,	NT\$10 thousand per month (before tax)
Subsidiary	Jiaren St., Zhubei City, Hsinchu County (Employee dormitory)	2005/12/01~2006/11/30, Renewed automatically upon expiration	Settled based on the actual number of persons on a monthly basis.

i. <u>Other revenue</u>		
Type	2019	2018
Subsidiary		
CLIC	458	534
LUMITC	17,147	15,001
MPS	26,270	7,696
MPA	8,063	2,712
Total	<u>\$ 51,938</u>	<u>\$ 25,943</u>

j. Information about remuneration to the management

Information about remuneration to the Company's management is stated as follows:

	2019	2018
Salary and other short-term employee benefits	\$ 9,517	\$ 9,581
Resignation benefits	-	-
Retirement benefits	-	-
Other long-term benefits	-	-
Total	<u>\$ 9,517</u>	<u>\$ 9,581</u>

Said remuneration to the management is decided by the Remuneration Committee subject to personal performance and market trend. For the relevant information, please see the annual report of the general shareholders' meeting.

8. Pledged assets

The following assets have been provided to the Company as the collaterals for bank loans, import business tax and sale commitment. The book value thereof is stated as follows:

	December 31, 2019	December 31, 2018
Land	\$ 770,963	\$ 770,963
Building	831,450	857,912
Pledged time deposit (stated as other current assets)	3,453	2,719
Total	<u>\$ 1,605,866</u>	<u>\$ 1,631,594</u>

9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: None.

(2) Commitment:

- A. Balance of unused letter of credit issued by the Company, guarantee money paid and service charges: None.
- B. The outstanding amount under the purchase orders signed for the Company's purchase of equipment is stated as following:

	December 31, 2019	December 31, 2018
Purchase of property, plant and equipment	<u>\$ 476,599</u>	<u>\$ 2,012</u>

C. The Company's significant long-term rent:

Effective 2018

- (a) The Company rented the land lots in Tainan Science Park from Southern Taiwan Science Park Administration for construction of Luchu 1st Plant and 2nd Plant. According to the lease contract, the lease of the land shall persist for no more than 20 years, and the lease shall expire on December 31, 2024. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Company is prohibited from claiming the continuance of lease or irregular lease with any excuse. In the case of land price re-set by the government pursuant to laws, the rent shall be adjusted and collected based on the re-set land price.
- (b) The Company rented the land at Taiho Section, Zhubei City, Hsinchu Country from a non-related party for parking lots. The lease shall expire on May 14, 2022. The Company shall surrender the land to the lessor upon expiration of termination of the lease contract.
- (c) The Company rented the land and the construction at Zhonghe Street, Zhubei City, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on August 31, 2019. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.
- (d) The Company rented the land and the construction at Guangfu Rd, Hukou Township, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on September 30, 2021. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

The income expenses for said two lots of long-term operating leased land were stated as NT\$16,001 thousand in 2018.

The future payable rent for important long-term operating lease is stated as follows:

	December 31, 2018
Less than one year	\$ 14,653
One year to five years	33,457
More than five years	4,683
Total	<u>\$ 52,793</u>

10. Significant disaster loss: None.

11. Significant subsequent events: None.

12. Others

(1) Capital management

The Company's capital management objective is intended to protect the Company's continued operation and ensure maintenance of well-founded credit ratings and optimal capital structure to reduce capital cost, in order to support the enterprise's operation and maximization of shareholders' return. The Company manages and adjusts the capital structure subject to the economic condition. The Company might adjust the stock dividend to be paid, refund of capital, issuance of new shares or realization of assets to reduce liabilities, in order to maintain and adjust the capital structure.

The Company controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Company maintained the same strategy in 2019 as that in 2018, dedicated to maintaining the debt/equity ratio less than 70%~120%. The Company's debt ratios on December 31, 2019 and December 31, 2018 are stated as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total liabilities	\$ 3,558,974	\$ 4,027,514
Total net worth	4,370,704	4,106,841
Debt/equity ratio	81%	98%

(2) Financial instruments by category

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

- (a) Financial assets: Including financial assets measured at fair value through profit, cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid and other financial assets.
- (b) Financial liabilities: Including financial liabilities measured at fair value through profit, short-term loans, notes payable, accounts payable, other payables, lease liabilities, bonds payable(including current portion), long-term borrowings(including current portion), guarantee deposits received and other financial liabilities.

B. Risk management policies

- (a) The Company's financial risk management aims to manage the market risk, credit risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.
- (b) The Company has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Company shall strictly comply with the requirements related to financial risk management defined by the Company.

C. Significant financial risks and degrees of financial risks

(a) Market risk

The Company's market risk arises from market price fluctuation resulting in fluctuation of the fair value or cash flow of financial instruments. The market risk primarily includes foreign exchange risk, interest rate risk and other pricing risks.

Practically, few single risk variances would change independently. Additionally, changes of various risk variances are generally correlative to each other. Notwithstanding, the sensitivity analysis of the following risks does not take the interaction of related risk variances into consideration.

Ⓐ Foreign exchange risk

The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currencies, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognized assets.

The Company's receivable accounts denominated in foreign currency are identical with payable accounts denominated in foreign currency in some currencies and, therefore, the equivalent positions would produce the hedging effect naturally. Considering that said natural hedging did not meet the hedging accounting policy, the Company did not adopt the hedging accounting policy. Further, the net investment in foreign operations was identified as strategic investment. Therefore, the Company did not adopt any hedging policy against it.

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Company's income and equity. The Company's foreign exchange risk arises primarily from fluctuation in the foreign exchange rate of USD, Japanese Yen, Euro and RMB.

The Company's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or Won). Therefore, the Company would be subject to the effect produced by fluctuation in foreign exchange rate. The information about assets denominated in foreign currency exposed to significant effect produced by fluctuation in foreign exchange rate is stated as follows:

December 31, 2019				
	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
Financial assets	NTD/USD	\$ 30,091	29.944	\$ 901,049
	NTD/JPY	\$ 1,832	0.27541	\$ 504
	NTD/EUR	\$ 24	33.429	\$ 806
	NTD/RMB	\$ 20,735	4.4165	\$ 91,576
	NTD/KRW	\$ 5,188	0.0262	\$ 136
	NTD/HKD	\$ 11	3.795	\$ 41
	NTD/SGD	\$ 18	22.155	\$ 406
	NTD/MYR	\$ 18	7.033	\$ 126
	NTD/THB	\$ 2	0.9752	\$ 2
	NTD/CHF	\$ 1	30.72	\$ 41
	NTD/PHP	\$ 91	0.5847	\$ 53
	NTD/INR	\$ 1	0.4728	\$ 1
	NTD/GBP	\$ 123	39.3611	\$ 4,851
	Financial liabilities	NTD/USD	\$ 1,665	30.040
NTD/JPY		\$ 7,781	0.2782	\$ 2,164
NTD/EUR		\$ 766	35.910	\$ 27,520
NTD/GBP		\$ 5	39.5845	\$ 207

December 31, 2018				
	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
Financial assets	NTD/USD	\$ 22,219	30.668	\$ 681,426
	NTD/JPY	\$ 4,819	0.2781	\$ 1,340
	NTD/EUR	\$ 28	35.481	\$ 992
	NTD/RMB	\$ 28,530	4.4507	\$ 126,976
	NTD/KRW	\$ 5,255	0.02775	\$ 145
	NTD/HKD	\$ 15	3.863	\$ 59
	NTD/SGD	\$ 12	22.355	\$ 276
	NTD/MYR	\$ 5	7.112	\$ 36
	NTD/THB	\$ 2	0.9186	\$ 2
	NTD/CHF	\$ 1	30.98	\$ 41
	NTD/PHP	\$ 15	0.5771	\$ 9
	NTD/INR	\$ 9	0.4348	\$ 4
	NTD/GBP	\$ 1	38.73	\$ 41
	Financial liabilities	NTD/USD	\$ 2,340	30.758
NTD/JPY		\$ 40,610	0.2801	\$ 11,375
NTD/EUR		\$ 553	37.736	\$ 20,896
NTD/RMB		\$ 520	4.675	\$ 2,430
NTD/SGD		\$ 1	22.567	\$ 27

In consideration of the Company's multiple functional currency types, the information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) were NT\$(26,727) thousand and NT\$25,412 thousand until December 31, 2019 and 2018.

Ⓑ Cash flow and fair value interest rate risk

The interest rate risk arises when the fluctuation of market interest rate results in fluctuation in fair value of financial instruments or in future cash flow. The Company's interest rate risk arises primarily from the loan with floating interest rate.

The Company maintained adequate portfolio with fixed and floating interest rates to manage the interest rate risk.

Ⓒ Pricing risk

Due to the fact that in the investment held by the Company indicated in the individual balance sheet, the Company did not hold the financial assets including equity instruments. Therefore, the Company did not suffer significant pricing risk.

Ⓓ Other risks over market value

In addition to meeting expected consumption and sale needs, the Company did not sign any product contract which did not apply net settlement.

Ⓔ Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on December 31, 2019 and 2018 are stated as following:

December 31, 2019		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-27,501 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/-1,606 thousand

December 31, 2018		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-21,136 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/-2,216 thousand

(b) Credit risk

Ⓐ Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the

contract cash flows of debt instruments stated at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income.

- ⓑ The Company set up the management of credit risk by Company perspective. According to the loan policy expressly defined internally in the Company, each business dept. Within the Company shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers' credit risk, including the unearned accounts receivable and undertaken transactions. The Company also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.
- ⓒ For the year ended December 31, 2019 and 2018, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart's failure to perform contract.
- ⓓ The Company's Finance Dept. Manages the credit risk over the deposits in banks and other financial instruments according to the Company's policy. The Company's trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.
- ⓔ Guarantee
According to the Company's policy, the Company may only make financial guarantee for the subsidiaries wholly owned by the Company. Before December 31, 2019 and December 31, 2018, the Company has never made any endorsements/guarantees.
- ⓕ The Company adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

- Ⓒ The Company in line with credit risk management procedure, when the counterparty of transaction has financial difficulties, business accidents, restrictions on the acceptance of orders due to legal restrictions, refunds of company bills and any factors (such as fires, earthquakes and natural disasters). A default is considered to have occurred in the event that the possibility of recovering the receivable is very low, the default has occurred.
- Ⓓ The Company classifies customer's notes receivable, accounts receivable, contract assets and rents receivable in accordance with geographic area, product types, credit rating of customer, collaterals, credit risk on trade and customer types. The Company applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- ① The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights.
- ① The Company used the foreseeable of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the loss allowance of notes receivable and accounts receivable. The Company use provision matrix to estimate expected credit loss under the provision matrix basis. The provision matrix basis based on historical default rates observed during the lifetime of accounts receivable to adjust. On each reporting day, the Company updated the observed historical default rates and analyzed changes. On December 31, 2019 and 2018, the Company expected credit loss rate during the lifetime is stated as follow:

	Notes Receivable	Accounts Receivable					
	dishonoured check	Without past due	1~90 days	91 to 180 days	181 to 360 days	1 to 2 years	More than 2 year
Expected loss rate	100%	0%	7%	15%	25%	50%	100%

- Ⓔ The Company grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of loss allowances provided for the Company's impairment on receivable accounts and account age analysis on loans, please see Note 6(3).

(c) Liquidity risk

- Ⓐ The liquidity risk arises when the Company fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Company managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable loss or impairment on the Company's goodwill.
- Ⓑ The Company will call the management meeting periodically to assist Financial Accounting Dept. Control the need for cash flow and the optimal investment return in cash. Generally, the Company will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Company's loan totaled NT\$2,592,672 thousand on December 31, 2019.
- Ⓒ The following table refers to the non-derivative financial liabilities to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Company did not hold derivative financial liabilities.

Non-derivative financial liabilities	December 31, 2019			
	Within 1 year	1~2 years	More than 2 years	Total
Short-term loan	\$ 500,000	\$ -	\$ -	\$ 500,000
Payable accounts (including related party)	348,008	-	-	348,008
Other payable accounts (including related party)	725,627	-	-	725,627
Lease liabilities	45,256	46,372	-	91,628
Corporate bond payable	-	-	902,485	902,485
Long-term loan (including the current portion)	-	-	142,208	142,208
Total	\$1,618,891	\$ 46,372	\$1,044,693	\$2,709,956

Non-derivative financial liabilities	December 31, 2018			
	Within 1 year	1~2 years	More than 2 years	Total
Short-term loan	\$ 818,000	\$ -	\$ -	\$ 818,000
Payable accounts (including related party)	460,079	-	-	460,079
Other payable accounts (including related party)	747,270	-	-	747,270
Corporate bond payable	-	-	892,843	892,843
Long-term loan (including the current portion)	29,233	29,233	9,997	68,463
Total	\$2,054,582	\$ 29,233	\$ 902,840	\$2,986,655

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

- Ⓐ Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. 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 Company's investment in corporate bonds is included in Level 2.
- Ⓒ Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

- Ⓐ Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, Pledged Deposit, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

	December 31, 2019			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial assets	—	—	—	—
Financial liabilities				
Bonds payable (including current portion)	\$ 902,485	—	\$ 902,485	—

	December 31, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial assets	—	—	—	—
Financial liabilities				
Bonds payable (including current portion)	\$ 894,843	—	\$ 892,843	—

- Ⓑ The methods and assumptions of fair value estimate are as follows:
Corporate bond payable: The cash flow expected to be paid is measured by the present value discounted of the market interest rate on the balance sheet date.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

- Ⓐ The Company measured at fair value by level on the basis of the assets and liabilities:

	December 31, 2019			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Assets				
<u>Recurring fair value measurements</u>	—	—	—	—
<u>Non-recurring fair value measurements</u>	—	—	—	—
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss — non-current convertible bonds option	\$ 384	—	\$ 384	—

	December 31, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Assets				
<u>Recurring fair value measurements</u>	—	—	—	—
<u>Non-recurring fair value measurements</u>	—	—	—	—
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	—

- Ⓑ 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

<u>Financial instruments</u>	<u>Instruments and inputs</u>
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 December 31, 2019 and 2018.

13. Disclosures of Notes

(1) Information about important transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Company shall also disclose the information about important transactions:

No.	Contents	2019
1	Loans to others:	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.	Attached table 1
8	Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital.	Attached table 2
9	Transactions of derivative instruments.	N/A
10	Business relationship and important transactions between parent company and subsidiaries.	Not be disclosed in parent company financial statement

Attached table 1: Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital

Seller/buyer	Trading counterpart	Relationship	Status				Distinctive terms and conditions of trade and the reasons		Accounts/notes receivable (payable)		Remark
			Purchase (sale)	Amount	Percentage in total purchase (sale) amount	Extension of loan Duration	Unit price	Duration of loan	Balance	Percentage in total accounts/notes receivable (payable)	
The Company	MPI AMERICA INC.	The Company's subsidiaries	Sale	\$ 418,689	9 %	same as that applicable to the general customer	—	—	Receivable accounts \$ 232,124	16%	
The Company	MPS	The Company's subsidiaries	Sale	\$ 209,987	4%	same as that applicable to the general customer	—	—	Receivable accounts \$ 208,057	15%	

Attached Table 2: Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital

Name of company stated into receivable accounts	Trading counterpart	Relationship	Balance of receivable accounts-related parties	Turnover rate	Overdue receivable accounts-related parties		Subsequent recovered amount of receivable accounts-related parties	Allowance for bad debt
					Amount	Treatment		
MPI Corporation	MPI AMERICA INC.	The Company's subsidiaries	Receivable accounts \$ 232,124	1.9830	—	—	\$ 59,476	—
MPI Corporation	MPS	The Company's subsidiaries	Receivable accounts \$ 208,057	1.6832	—	—	\$ 11,967	—

(2) 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 Company may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) in 2019 is stated as follows:

Investor	Investee	Territory	Business lines	Original investment amount		Held at ending			Investee income recognized in current period (Note 1)	Investment income recognized in the current period (Note 2) (Note 3)	Remark
				End of the period	End of last year	Quantity	Ratio	Book value			
MPI Corporation	MPI TRADING CORP.	Offshore Chambers, P.O.BOX 217, APIA,SAMOA	Trading of probe cards and semi-automatic probers	\$ 32	\$ 32	1,000	100%	\$ 60,858	\$ (420)	\$ (420)	Subsidiary of MPI Corporation
MPI Corporation	MMI HOLDING CO.,LTD.	Offshore Chambers, P.O.BOX 217, APIA,SAMOA	Holding company	\$ 573,502	\$ 573,502	18,267,987 (Note4)	100%	\$ 490,841	\$ (27,590)	\$ (28,060)	Subsidiary of MPI Corporation
MPI Corporation	MEGTAS CO.,LTD.	134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-811, Korea	Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts	\$ 53,767	\$ 53,767	400,000	80% (Note5)	\$ 36,504	\$ (1,930)	\$ (1,509)	Subsidiary of MPI Corporation
MPI Corporation	Chain-Logic International Corp.	3F, No. 153, Zhonghe Street, Zhubei City, Hsinchu County	Professional agent of semi-conductor	\$ 50,000	\$ 50,000	5,000,000	100%	\$ 212,867	\$ 30,506	\$ 32,462	Subsidiary of MPI Corporation
MPI Corporation	Allstron Corporation	No. 8, Lane 98, Jiaren Street, Neighborhood 36, Xinan Vil., Zhubei City, Hsinchu County	High-frequency wafer measurement probe card manufacturer	\$ 50,000	\$ 50,000	1,550,000	100%	\$ 1,578	\$ (66)	\$ (66)	Subsidiary of MPI Corporation
MPI Corporation	MPA TRADING CORP.	Vistra (Anguilla) Limited, Vistra Corporate Services Centre, Albert Lake Drive, The Valley, Anguilla, British West Indies.	Holding company	\$ 37,881	\$ 37,881	1,250,000	100%	\$ (118,988)	\$ (60,401)	\$ (60,401)	Subsidiary of MPI Corporation
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP.	Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365,307 St James Court, St Denis Street, Port Louis, Republic of Mauritius.	Primarily engaged in international trading	\$ 12,687 (Note 6)	\$ 46,921	300,100	100%	\$ 17,041	\$ 99	—	Subsidiary of Chain-Logic International Corp.
MPI Corporation	MPI America Inc	2360 QUME DRIVE,SUITE C,SAN JOSE,CA	Trading of probe cards and semi-automatic probers	\$ 36,366	\$ 36,366	1,200,000	100%	\$ (115,520)	\$ (60,344)	—	Subsidiary of MPA TRADING CORP.

Note 1: Except MEGTAS CO., LTD. and MPI AMERICA INC., which were audited by other external auditors commissioned by it instead of the Company's external auditors. The others were audited by CPA of the parent company.

Note 2: The investment income recognized in the current period includes the investment income recognized under equity method and realized (unrealized) gain recognized from upstream/side stream transactions.

Note 3: The subsidiaries' income recognized in the current period includes the investment income to be recognized for their re-investment pursuant to the requirements.

Note 4: The Company's subsidiary, MMI HOLDING CO., LTD., reducing the cash capital US\$2,857,000 (equivalent to NT\$84,006 thousand) in April 2018 and reducing the cash capital US\$936,870 (equivalent to NT\$28,669 thousand) in September 2018. So far, the Company has invested a total of US\$18,267,987 in the subsidiary, MMI HOLDING CO., LTD., totaling 18,267,987 shares, at the par value of US\$1 per share. The Company's shareholding was 100%.

Note 5: In order to coordinate the corporation's operating program and promote the efficiency of capital usage, the Company has reported to the board of directors to takeover 20% of equity on MEGTAS CO., LTD. in NT\$ 5,000 per share on November 8, 2018. The total investment cost is 13,861 thousand and the date of the takeover is on October 5, 2018. Besides the company will takeover 100,000 shares, and the shareholding ratio will increase from 60% to 80%. The difference between consideration paid and carrying amount of subsidiaries acquired was NT\$4,576 thousand.

Note 6: The Company's subsidiary, CHAIN-LOGIC TRADING CORP., reducing the cash capital US\$1,100,000 (equivalent to NT\$34,234 thousand) in July 2019. So far, the Company has invested a total of US\$300,100 in the subsidiary, CHAIN-LOGIC TRADING CORP., totaling 300,100 shares, at the par value of US\$1 per share. The Company's shareholding was 100%.

(3) Information related to investments in China

A. Information related to investments in the territories of Mainland China

Name of Chinese investee	Business lines	Paid-in capital	Mode of investment	Accumulated investment balance, beginning	Amount remitted or recovered in the current period		Accumulated investment balance, ending	Investee income recognized in current period	Direct and indirect shareholding of the Company	Investment income recognized in the current period (Note 3)	Book value, ending	Accumulated investment income received until the end of period
					outflow	inflow						
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Primarily engaged in international trading	— (Note 4) (Note 5)	(Note 1)	USD 1,400,000 (\$ 46,917)	—	USD 1,100,000 (\$ 34,234)	USD 300,000 (\$12,683)	\$ (4,010)	100 %	\$ (4,010)	—	\$15,852
Lumitek (Changzhou) Co. Ltd.	R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.	USD 16,000,000 (\$ 502,470)	(Note 2)	USD 16,000,000 (\$ 502,470)	—	—	USD 16,000,000 (\$ 502,470)	\$ (3,635)	100 %	\$ (3,635)	\$ 488,433	—

MPI (Suzhou) Corporation	R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.	USD 2,000,000 (\$60,180)										
	Registered capital	(Note 2)	USD 2,000,000 (\$60,180)	-	-	USD 2,000,000 (\$60,180)	\$ (23,681)	100 %	\$ (23,681)	\$ 32,613	-	
	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: The recognition of investment income was on the basis of the financial statement audited by CPA of the parent company.

Note 4: Our company present a discussion to the board of directors that they decide to adopt a resolution about the reduction of capital RMB 7,583,950(USD 1,100,000), the amount of paid-in capital should amend to USD 300,000, the payment will be transferred to CHAIN-LOGIC TRADING CORP. account at June 28, 2019. The Investment been approved by Commission on MOEA put on record.

Note5: The shareholders' meeting passed the liquidation of CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. on September 23, 2019. The company was written off on November 11, 2019, and remitted the surplus investment of US\$428,835.20 (equivalent to NT\$12,683 thousand). The Investment been approved by Commission on MOEA put on record in February 27, 2020.

B. Information related to ceiling on investment in Mainland China

Accumulated amount of remittance from Taiwan to Mainland China at the end of period	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs	Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (Note)
USD 18,300,000 (NTD 575,333)	USD 19,710,272.42 (NTD 620,418)	NTD 2,627,907

Notel: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

Note2 : Investment amount approved by the Investment

- (a) Investment amount approved by the Investment LEDA-ONE (Shenzhen) Co. was liquidated and Written off in May 2017 and remitted the surplus investment US\$155,857.58 (equivalent to NT\$4,677 thousand) to offset the investment amount approved by the MOEA. The original investment amount at US\$1,800,000(equivalent to NT\$54,111 thousand) is still in total of US\$1,644,142.42(equivalent to NT\$49,434 thousand) that could not be offset the investment amount.
- (b) MJC Microelectronics(Kunshan) Co., Ltd. was transferred to Japanese MJC Corporation in March, 2018, and the transfer amount of US\$2,857,000 (equivalent to NT\$84,006 thousand) was used to deduct the mainland investment quota in April, 2018.
- (c) MJC Microelectronics (Shanghai) Co., Ltd. was liquidated in August, 2018, and in September, 2018, the liquidation amount of US\$936,870 (equivalent to NT\$28,669 thousand) was used to deduct the accumulated amount of investment in Mainland China.
- (d) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the reduction of cash capital US\$ 1,100,000 (equivalent to NT\$34,234 thousand) by the Board of Directors meeting. The amount of cash capital reduction has remitted to Chain-Logic International Corp. in July, 2019 and was used to deduct the accumulated amount of investment in Mainland China.

C. Important transactions:

For the important transactions of the Company with the investees in Mainland China, direct or indirect, in 2019 (which have been eliminated when preparing the consolidated financial statements), please see the “Information related to the investees” and “Major business dealings and transactions between the parent company and its subsidiaries” referred to in Note 13 to the consolidated financial statements.

14. Information by department

Please see the consolidated financial statements 2019.