

**MPI CORPORATION and Subsidiaries**  
**Consolidated Financial Statements**  
**Nine Months Ended September 30, 2020 and 2019 and**  
**Independent Auditors' Review Report**

# MPI CORPORATION and Subsidiaries

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# NEXIA SUN RISE CPAs & COMPANY

日正聯合會計師事務所

Certified Public Accountants



## INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors and Stockholders of MPI Corporation

### **Introduction**

We have reviewed the accompanying consolidated financial statements of **MPI CORPORATION** (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of September 30, 2020 and 2019 and the consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month periods then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. Managements is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting," endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### **Scope of Review**

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

### **Basis of qualified conclusion**

As described in Note 4(3), the financial statements of certain non-significant subsidiaries and measured based on their unreviewed financial statements as of and for the nine-month periods ended September 30, 2020 and 2019. Total assets of these subsidiaries and investments amounted to NT\$1,343,783 thousand and NT\$894,821 thousand, representing 16% and 12% of the related consolidated totals, and total liabilities amounted to NT\$469,599 thousand and NT\$301,291 thousand, representing 16% and 9% of the related consolidated totals, as of September 30, 2020 and 2019, respectively. Total comprehensive income of these subsidiaries including share of profit

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of associates NT \$25,299 thousand and NT \$(66,284) thousand, constituting 4% and (24%) of the consolidated totals for the nine-month periods then ended respectively.

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

## **Qualified conclusion**

Based on our reviews, except for the effects of adjustments, if any, as might have been required had the financial statements of these non-significant subsidiaries and investees’ for using equity method and related information mentioned described in the preceding paragraph been reviewed, we are not aware of any material modifications at September 30, 2020 and 2019 that should be made to the consolidated financial statements referred to in the first paragraph for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 “Interim Financial Reporting “ endorsed by the Financial Supervisory Commission of the Republic of China.

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

# NEXIA SUN RISE CPAs & COMPANY

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Certified Public Accountants



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

November 11, 2020

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

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

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**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (ASSETS)**

September 30, 2020, December 31, 2019 AND September 30, 2019

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

(UNAUDITED)

ASSETS	Note	September 30, 2020		December 31, 2019		September 30, 2019	
		Amounts	%	Amounts	%	Amounts	%
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	6(1)	\$ 1,114,604	13	\$ 1,103,311	14	\$ 858,165	11
Financial assets at fair value through profit or loss – current	6(13)	1,637	-	-	-	-	-
Notes receivable, net	6(3)	51,643	1	96,074	1	92,069	1
Accounts receivable, net	6(4)	1,117,932	13	1,234,092	15	1,067,087	14
Other receivables		18,828	-	2,465	-	2,396	-
Current tax assets		38	-	1	-	676	-
Inventories, net	6(5)	2,388,441	29	2,254,516	28	2,296,609	30
Prepayments		142,044	2	103,511	1	136,813	2
Other current assets	8	25,909	-	21,959	-	20,166	-
Total Current Assets		4,861,076	58	4,815,929	59	4,473,981	58
<b>NONCURRENT ASSETS</b>							
Property, plant and equipment	6(6),8	3,040,404	37	2,933,943	36	2,839,045	37
Right-of-use assets	6(7)	126,573	2	146,710	2	151,781	2
Intangible assets	6(8)	22,208	-	34,803	-	35,644	-
Deferred income tax assets	6(19)	114,232	1	124,291	2	111,547	1
Other noncurrent assets	6(9)	161,838	2	123,225	1	137,385	2
Total Noncurrent Assets		3,465,255	42	3,362,972	41	3,275,402	42
<b>TOTAL ASSETS</b>		<b>\$ 8,326,331</b>	<b>100</b>	<b>\$ 8,178,901</b>	<b>100</b>	<b>\$ 7,749,383</b>	<b>100</b>

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (LIABILITIES AND EQUITY)**  
September 30, 2020, December 31, 2019 AND September 30, 2019  
(All amounts are expressed in thousand of New Taiwan Thousand Dollars unless otherwise stated)  
(UNAUDITED)

LIABILITIES AND EQUITY	Note	September 30, 2020		December 31, 2019		September 30, 2019	
		Amounts	%	Amounts	%	Amounts	%
<b>CURRENT LIABILITIES</b>							
Short-term loans	6(10)	\$ -	-	\$ 500,000	6	\$ 700,000	9
Contract liabilities – current	6(17)	654,918	8	811,231	10	721,277	9
Notes payable		14,790	-	12,789	-	13,035	-
Accounts payable		476,816	6	379,978	4	354,371	5
Payables on equipment		17,336	-	65,720	1	21,532	-
Other payables	6(11)	593,805	7	708,834	9	544,175	7
Income tax payable		92,146	1	56,972	1	34,912	-
Provisions – current	6(12)	6,991	-	6,572	-	5,618	-
Lease liabilities – current	6(7)	64,851	1	84,235	1	77,283	1
Current portion of bonds payable	6(13)	199,983	2	-	-	-	-
Other current liabilities		21,175	-	20,019	-	17,308	-
<b>Total Current Liabilities</b>		<b>2,142,811</b>	<b>25</b>	<b>2,646,350</b>	<b>32</b>	<b>2,489,511</b>	<b>31</b>
<b>NONCURRENT LIABILITIES</b>							
Financial liabilities at fair value through profit or loss – non-currer	6(13)	-	-	384	-	4,330	-
Bonds payable	6(13)	-	-	902,485	11	901,497	13
Long-term loans	6(14)	629,280	8	142,208	2	-	-
Deferred income tax liabilities	6(19)	7,644	-	7,012	-	6,607	-
Lease liabilities – non-current	6(7)	64,885	1	67,752	1	75,230	1
Net defined benefit liability – non-current	6(15)	30,271	-	32,768	-	38,146	-
Other noncurrent liabilities		97	-	97	-	311	-
<b>Total Noncurrent Liabilities</b>		<b>732,177</b>	<b>9</b>	<b>1,152,706</b>	<b>14</b>	<b>1,026,121</b>	<b>14</b>
<b>TOTAL LIABILITIES</b>		<b>2,874,988</b>	<b>34</b>	<b>3,799,056</b>	<b>46</b>	<b>3,515,632</b>	<b>45</b>
<b>EQUITY</b>							
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT							
Capital common stock		910,684	11	799,587	10	799,154	10
Capital surplus		1,575,864	19	980,325	12	977,935	13
Retained earnings							
Appropriated as legal capital reserve		639,975	8	596,549	7	596,549	8
Appropriated as special capital reserve		68,477	1	54,229	1	54,229	1
Unappropriated earnings		2,337,811	28	2,008,491	25	1,854,204	24
<b>Total Retained Earnings</b>		<b>3,046,263</b>	<b>37</b>	<b>2,659,269</b>	<b>33</b>	<b>2,504,982</b>	<b>33</b>
Others							
Foreign currency translation adjustments		(90,108)	(1)	(68,477)	(1)	(57,384)	(1)
Total others		(90,108)	(1)	(68,477)	(1)	(57,384)	(1)
Equity attributable to shareholders of the parent		5,442,703	66	4,370,704	54	4,224,687	55
<b>NONCONTROLLING INTERESTS</b>		<b>8,640</b>	<b>-</b>	<b>9,141</b>	<b>-</b>	<b>9,064</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>5,451,343</b>	<b>66</b>	<b>4,379,845</b>	<b>54</b>	<b>4,233,751</b>	<b>55</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 8,326,331</b>	<b>100</b>	<b>\$ 8,178,901</b>	<b>100</b>	<b>\$ 7,749,383</b>	<b>100</b>

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

From January 1 to September 30, 2020 and 2019

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

(UNAUDITED)

Items	Note	July 1~September 30, 2020		July 1~September 30, 2019		January 1 ~ September 30, 2020		January 1 ~ September 30, 2019	
		Amounts	%	Amounts	%	Amounts	%	Amounts	%
<b>OPERATING REVENUE, NET</b>	6(17)								
Sales revenue		\$ 1,448,826	96	\$ 1,402,865	96	\$ 4,263,912	96	\$ 3,833,974	96
Less: sales returns		(63)	-	(1,277)	-	(505)	-	(6,982)	-
sales discounts and allowances		(860)	-	(3,915)	-	(3,848)	-	(7,480)	-
Lease revenue		-	-	1,571	-	-	-	1,571	-
Commission revenue		201	-	1,891	-	2,458	-	2,483	-
Processing Fees revenue		57,336	4	66,227	4	157,873	4	172,758	4
Operating Revenue, net		1,505,440	100	1,467,362	100	4,419,890	100	3,996,324	100
<b>OPERATING COSTS</b>	6(5)	(823,911)	(55)	(866,591)	(59)	(2,474,040)	(56)	(2,425,306)	(61)
<b>GROSS PROFIT, NET</b>		<u>681,529</u>	<u>45</u>	<u>600,771</u>	<u>41</u>	<u>1,945,850</u>	<u>44</u>	<u>1,571,018</u>	<u>39</u>
<b>OPERATING EXPENSES</b>									
Selling expenses		(156,350)	(10)	(171,729)	(12)	(458,865)	(10)	(465,674)	(12)
General & administrative expenses		(107,804)	(7)	(96,141)	(7)	(301,119)	(7)	(269,965)	(7)
Research and development expenses	6(8)	(174,226)	(12)	(174,081)	(12)	(496,436)	(11)	(532,948)	(13)
Expected Credit (losses)gains	6(4)	3,710	-	4,381	1	6,388	-	(2,761)	-
Operating expenses, net		<u>(434,670)</u>	<u>(29)</u>	<u>(437,570)</u>	<u>(30)</u>	<u>(1,250,032)</u>	<u>(28)</u>	<u>(1,271,348)</u>	<u>(32)</u>
<b>OPERATING INCOME</b>		<u>246,859</u>	<u>16</u>	<u>163,201</u>	<u>11</u>	<u>695,818</u>	<u>16</u>	<u>299,670</u>	<u>7</u>
<b>NON-OPERATING INCOME AND EXPENSES</b>									
Other gains and losses, net	6(18)	7,667	1	(2,886)	-	(22,308)	(1)	14,957	-
Finance costs	6(18)	(4,495)	-	(6,181)	-	(17,088)	-	(19,345)	-
Interest income	6(18)	994	-	1,232	-	3,611	-	4,023	-
Rent income	6(7)	2,420	-	2,603	-	7,180	-	7,968	-
Other non-operating revenue-other items		6,232	-	6,409	-	23,746	1	17,204	1
Total Non-operating Income and Expenses		<u>12,818</u>	<u>1</u>	<u>1,177</u>	<u>-</u>	<u>(4,859)</u>	<u>-</u>	<u>24,807</u>	<u>1</u>
<b>INCOME BEFORE INCOME TAX</b>		<u>259,677</u>	<u>17</u>	<u>164,378</u>	<u>11</u>	<u>690,959</u>	<u>16</u>	<u>324,477</u>	<u>8</u>
<b>INCOME TAX EXPENSE</b>	6(19)	(38,514)	(2)	(21,644)	(1)	(104,198)	(2)	(44,944)	(1)
<b>NET INCOME</b>		<u>221,163</u>	<u>15</u>	<u>142,734</u>	<u>10</u>	<u>586,761</u>	<u>14</u>	<u>279,533</u>	<u>7</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>									
Items that may be reclassified subsequently to profit or loss									
Exchange differences arising on translation of foreign operations		11,218	1	(12,310)	(1)	(22,002)	(1)	(3,730)	-
Other comprehensive income for the period, net of income tax		<u>11,218</u>	<u>1</u>	<u>(12,310)</u>	<u>(1)</u>	<u>(22,002)</u>	<u>(1)</u>	<u>(3,730)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u>\$ 232,381</u>	<u>16</u>	<u>\$ 130,424</u>	<u>9</u>	<u>\$ 564,759</u>	<u>13</u>	<u>\$ 275,803</u>	<u>7</u>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO :</b>									
Shareholders of the parent		\$ 221,138	15	\$ 143,012	10	\$ 586,891	14	\$ 279,983	7
Non-controlling interests		25	-	(278)	-	(130)	-	(450)	-
		<u>\$ 221,163</u>	<u>15</u>	<u>\$ 142,734</u>	<u>10</u>	<u>\$ 586,761</u>	<u>14</u>	<u>\$ 279,533</u>	<u>7</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>									
Shareholders of the parent		\$ 232,277	16	\$ 131,047	9	\$ 565,260	13	\$ 276,829	7
Non-controlling interests		104	-	(623)	-	(501)	-	(1,026)	-
		<u>\$ 232,381</u>	<u>16</u>	<u>\$ 130,424</u>	<u>9</u>	<u>\$ 564,759</u>	<u>13</u>	<u>\$ 275,803</u>	<u>7</u>
<b>EARNINGS PER COMMON SHARE (NTD)</b>	6(20)								
After-tax									
Basic earnings per share		\$ 2.50		\$ 1.79		\$ 7.09		\$ 3.50	
Diluted earnings per share		\$ 2.41		\$ 1.52		\$ 6.79		\$ 2.97	

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

From January 1 to September 30, 2020 and 2019

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

(UNAUDITED)

Item	Capital		Retained Earnings			Others	Total	Non-controlling Interests	Total Equity
	Common Stock	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Foreign Currency Translation Reserve			
BALANCE, JANUARY, 1, 2019	\$ 799,014	\$ 977,255	\$ 563,093	\$ 42,308	\$ 1,779,401	\$ (54,230)	\$ 4,106,841	\$ 10,090	\$ 4,116,931
Legal capital reserve			33,456		(33,456)		-		-
Special capital reserve				11,921	(11,921)		-		-
Cash Dividends of Common Stock					(159,803)		(159,803)		(159,803)
Capital Reserve From Stock Warrants		(203)					(203)		(203)
Other changes in capital surplus		19					19		19
Net Income for the nine-month period ended September 30, 2019					279,983		279,983	(450)	279,533
Other comprehensive income for the nine-month period ended September 30, 2019					-	(3,154)	(3,154)	(576)	(3,730)
Total comprehensive income	-	-	-	-	279,983	(3,154)	276,829	(1,026)	275,803
Convertible Bonds Transferred To Common Stock	140	864					1,004		1,004
BALANCE, SEPTEMBER 30, 2019	\$ 799,154	\$ 977,935	\$ 596,549	\$ 54,229	\$ 1,854,204	\$ (57,384)	\$ 4,224,687	\$ 9,064	\$ 4,233,751
BALANCE, JANUARY, 1, 2020	\$ 799,587	\$ 980,325	\$ 596,549	\$ 54,229	\$ 2,008,491	\$ (68,477)	\$ 4,370,704	\$ 9,141	\$ 4,379,845
Legal capital reserve			43,426		(43,426)		-		-
Special capital reserve				14,248	(14,248)		-		-
Cash Dividends of Common Stock					(199,897)		(199,897)		(199,897)
Capital reserve from stock warrants		648,090					648,090		648,090
Other changes in capital surplus		(52,551)					(52,551)		(52,551)
Net Income for the nine-month period ended September 30, 2020					586,891		586,891	(130)	586,761
Other comprehensive income for the nine-month period ended September 30, 2020					-	(21,631)	(21,631)	(371)	(22,002)
Total comprehensive income	-	-	-	-	586,891	(21,631)	565,260	(501)	564,759
Convertible Bonds Transferred To Common Stock	111,097						111,097		111,097
BALANCE, SEPTEMBER 30, 2020	\$ 910,684	\$ 1,575,864	\$ 639,975	\$ 68,477	\$ 2,337,811	\$ (90,108)	\$ 5,442,703	\$ 8,640	\$ 5,451,343

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

From January 1 to September 30, 2020 and 2019

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

(UNAUDITED)

Items	Jan 1 ~ Sep 30, 2020	Jan 1 ~ Sep 30, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 690,959	\$ 324,477
Adjustments to reconcile net income to net cash		
Depreciation	365,074	396,821
Amortization	44,017	47,084
Expected credit loss (gain)	(6,388)	2,761
(Gain) loss on financial assets (liabilities) at fair value through profit or loss	(7,595)	(4,921)
Interest expense	17,088	19,345
Interest revenue	(3,611)	(4,023)
(Gain) loss on disposal of property, plant and equipment	(696)	(1,899)
(Gain) loss on repurchase of convertible bonds	-	(82)
Depreciation of assets leased to others	-	2,002
(Gain) loss on exchange of prepayments for equipment	-	(2)
(Gain) loss on lease modification	(158)	(52)
Rent concessions	(485)	-
Net changes in operating assets and liabilities		
Net changes in operating assets		
Decrease (Increase) in notes receivable	44,432	8,683
Decrease (Increase) in accounts receivable	122,798	(124,404)
Decrease (Increase) in other receivables	(16,209)	3,922
Decrease (Increase) in inventories	(133,925)	258,442
Decrease (Increase) in prepayments	(38,534)	(26,122)
Decrease (Increase) in other current assets	572	(6,273)
Net changes in operating liabilities		
(Decrease) Increase in contract liabilities	(156,313)	(219,626)
(Decrease) Increase in notes payable	2,001	6,938
(Decrease) Increase in accounts payable	96,839	(124,234)
(Decrease) Increase in other accounts payable	(114,927)	(134,852)
(Decrease) Increase in provision for liabilities	419	759
(Decrease) Increase in other current liabilities	1,155	3,381
(Decrease) Increase in net defined benefit liability	(2,497)	(4,381)
Cash generated from operations	904,016	423,744
Interest received	3,456	3,744
Interest paid	(4,634)	(5,586)
Cash dividends paid	(199,897)	(159,803)
Income taxes paid	(58,370)	(84,946)
Net cash Provided By (Used In) Operating Activities	644,571	177,153

(Continue)

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

From January 1 to September 30, 2020 and 2019

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

(UNAUDITED)

Items	Jan 1 ~ Sep 30, 2020	Jan 1 ~ Sep 30, 2019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Repayment of financial assets measured at amortized cost	-	49,313
Acquisition of property, plant and equipment	(453,555)	(174,943)
Proceeds from disposal of property, plant and equipment	814	7,565
Acquisition of intangible assets	(13,087)	(17,216)
Increase in other financial assets	(4,523)	(3,345)
Increase in other non-current assets	(57,509)	(26,287)
Net cash Provided By (Used In) Investing Activities	<u>(527,860)</u>	<u>(164,913)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term loans	(500,000)	(118,000)
Repurchase of convertible bonds	-	(1,802)
Issuance of long-term loans	487,072	-
Repayments of long-term loans	-	(68,463)
Increase in guarantee deposits received	-	214
Cash payments for the principal portion of the lease liability	(77,833)	(73,241)
Decrease in other non-current liabilities	-	(229)
Increase (decrease) in non-controlling interests	(371)	(576)
Net cash Provided By (Used In) Financing Activities	<u>(91,132)</u>	<u>(262,097)</u>
Effects of exchange rate change on cash	<u>(14,286)</u>	<u>(2,672)</u>
Net increase (decrease) in cash and cash equivalents	11,293	(252,529)
Cash and cash equivalents at the beginning of the period	1,103,311	1,110,694
Cash and cash equivalents at the end of the period	<u>\$ 1,114,604</u>	<u>\$ 858,165</u>

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

**MPI CORPORATION and its Subsidiaries**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED September 30, 2020 AND 2019  
(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\$910,684 thousand and outstanding stock has been 91,068,350 shares until September 30, 2020. Upon resolution of the shareholders' meeting on June 12, 2018, the Company raised the authorized capital as NT\$1,200,000,000, divided into 120,000,000 shares at par value of NT\$10 per share. The board of directors is authorized to issue the stock in lots. NT\$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT\$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.
- (2) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.
- (3) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

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

The consolidated financial statements have been approved and released by the Board of Directors on November 11, 2020.

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

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRSs") as endorsed by Financial Supervisory Commission ("FSC")  
New standards, interpretations and amendments endorsed by FSC effective from 2020 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments 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
Amendment to IFRS 16, ‘Covid-19-related rent concessions’	June 1, 2020 (Note)

Note : Earlier application from January 1, 2020 is allowed by FSC.

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and operating result based on the Group’s assessment.

Amendment to IFRS 16, ‘Covid-19-related rent concessions’

This amendment provides a practical expedient for lessees from assessing whether a rent concession related to COVID-19, and that meets all of the following conditions, is a lease modification:

- (a) Changes in lease payments result in the revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) Any reduction in lease payments affects only payments originally due on or before June 30, 2021;and
- (c) There is no substantive change to other terms and conditions of the lease.

(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 FSC effective from 2021 are follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 4, ‘Extension of the temporary exemption from applying IFRS 9’	January 1, 2021

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 3, ‘Reference to the conceptual framework’	January 1, 2022
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, 2023
Amendments to IFRS 17, ‘Insurance contracts’	January 1, 2023
Amendments to IAS 1, ‘Classification of liabilities as current or non-current’	January 1, 2023
Amendments to IAS 16, ‘Property, plant and equipment: proceeds before intended use’	January 1, 2022
Amendments to IAS 37, ‘Onerous contracts—cost of fulfilling a contract’	January 1, 2022
Annual improvements to IFRS Standards 2018—2020	January 1, 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, ‘Interest Rate Benchmark Reform—Phase 2’	January 1, 2021

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

#### **4. Summary of Significant Accounting Policies**

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

##### **(1) Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standards 34, ‘Interim financial reporting’ endorsed by the FSC.

##### **(2) Basis for preparation**

###### **A. Basis for measurement**

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

- (1) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (2) Financial assets and liabilities at fair value through other comprehensive income.

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

B. Functional currency and presentation of currency

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

(3) Basis for consolidation

A. Principles for preparation of consolidated financial statements

- (a) The Group included all of the subsidiaries into the consolidated financial statements. Subsidiaries mean the entities controlled by the Group (including structured entities). When the Group is exposed to the changes of remuneration participated by the entities or is entitled to changes of remuneration, and is able to influence the remuneration by virtue of its power over the entities, the Group is held controlling the entities. The subsidiaries are included into the consolidated financial statements on the date when the Group acquires the controlling power, and the consolidation shall be suspended as of the date when the Group forfeits the controlling power.
- (b) Unrealized gains on transactions between the Group companies are eliminated to the extent of the Group's interest in the associates. Accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Elements of the income and other comprehensive income shall be vested in parent company shareholders and non-controlling equity. The total comprehensive income shall be vested in parent company shareholders and non-controlling equity, even if the non-controlling equity suffers loss.
- (d) Where the changes in shareholdings of subsidiaries don't result in forfeiture of controlling power (transactions with non-controlling equity), they shall be processed as equity transactions, which are identified as the transactions with parent company shareholders. The price difference between the adjustment value of non-controlling equity and fair value of paid or collected consideration shall be stated into equity directly.
- (e) When the Group forfeits control over its subsidiaries, its residual investment in the subsidiaries shall be re-measured based on fair value, and identified as the fair value of financial asset recognized initially or cost of the investment in affiliates or joint ventures recognized initially. The price difference

between the fair value and book value is stated into current income. Where the accounting treatment for the values related to the subsidiaries as stated into other comprehensive income previously is identical with the basis for the Group's direct disposition of related assets or liabilities, namely, if the gain or loss stated into other comprehensive income previously would be reclassified into income when the related assets or liabilities are disposed of, the gain or loss shall be reclassified into income from equity, when the Group forfeits control over the subsidiaries.

B. Subsidiaries included into the consolidated financial statements and status of change thereof:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Description
			September 30, 2020	December, 31, 2019	September 30 2019	
MPI	Chain-Logic International Corp.	Professional equipment agent and provides technologic service for the manufacturing of high-tech industry such as LED, LCD, Semiconductor, and etc.	100%	100%	100%	Established in March 1, 1994
MPI	MPI TRADING CORP.(Samoa)	Selling Probe Card and Test Equipment	100%	100%	100%	Established in December 22, 2000.
MPI	MMI HOLDING CO., LTD.(Samoa)	Investment activities	100%	100%	100%	Established in August 7, 2002.
MPI	MEGTAS CO., LTD	Test, maintenance, manufacturing and import/export trading of parts of semiconductors	80%	80%	80%	Established in September 1, 2010.
MPI	ALLSTRON CORP.	Manufacturing of high frequency wafer foundry measuring probing	100%	100%	100%	Established in March 31, 2006.  The Company started on January 1, 2014 as the acquisition date, acquiring 100% of the shares.
MPI	MPA TRADING CORP.	Investment activities	100%	100%	100%	Established in April 12, 2017.
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP. (Mauritius)	International trading business	100%	100%	100%	Established in November 19, 2001. (Note 2) (Note 4)
CHAIN-LOGIC TRADING CORP.	CHAIN LOGIC ( SHANGHAI) INTERNATIONAL CORP.	International trading	-	-	100%	Established in February 8, 2002.(Note 1)  The Company liquidated on November 11, 2019. (Note 3)
MMI HOLDING CO., LTD.	Lumitek (ChangZhou) Co.,Ltd.	Selling and manufacturing of high-tech industry such as LED.	100%	100%	100%	Established in January 10, 2014.
MMI HOLDING CO., LTD.	MPI (Suzhou) CORPORATION	Selling and manufacturing of high-tech industry such as LED.	100%	100%	100%	Established in July 11, 2017.
MPA TRADING CORP.	MPI AMERICA INC.	Selling Probe Card and Test Equipment	100%	100%	100%	Established in March 29, 2017.

- (Note1) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the reduction of cash capital RMB7,583,950 (equivalent to US\$1,100,000) by the Board of Directors meeting, and the amount of cash capital reduction has remitted to CHAIN-LOGIC TRADING CORP. on June 28, 2019.
- (Note2) The subsidiary of the Group – CHAIN-LOGIC TRADING CORP. has passed the reduction of cash US\$1,100,000 (equivalent to NT\$34,234 thousand) by the Board of Directors meeting, and the amount of cash capital reduction has remitted to Chain-Logic International Corp. on July 9, 2019. The Investment been approved by Commission on MOEA put on record.
- (Note3) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the liquidation by the shareholders' meeting on September 23, 2019, which was liquidated and written down in November 2019, and remitted the surplus investment of RMB\$3,817,610 (equivalent to US\$428,835.20) to CHAIN-LOGIC TRADING CORP. on December 27, 2019.
- (Note4) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. was liquidated and written down in November, 2019. Rest of the investment amount US\$300,000 (equivalent to NT\$8,963 thousand) has remitted to Chain-Logic International Corp. by the reduction of capital CHAIN-LOGIC TRADING CORP. in January, 2020 and was used to deduct the accumulated amount of investment in China. The Investment been approved by Commission on MOEA put on record on February 27, 2020.

The financial statements of the entity as of and for the nine-month periods ended September 30, 2020 and 2019 were not reviewed by the independent auditors as the entity did not meet the definition of significant subsidiary except MMI HOLDING CO., LTD. and Lumitek (ChangZhou) Co.,Ltd.

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

(4) Foreign currency

- A. Foreign currency transactions

The foreign currency exchange shall be stated at the functional currency translated at the exchange rate prevailing on the date of transaction. The monetary items denominated in the foreign currency on the reporting date shall be stated at the functional currency translated at the exchange rate on the same day. The exchange gain or loss refers to the difference between the amounts upon

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

B. Foreign operations

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

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

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

(5) Current and non-current assets and liabilities

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

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

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

- A. Liabilities expected to be repaid in the Company's normal operating cycle.
- B. Assets primarily held for the purpose of trading.
- C. Assets expected to be discharged within 12 months after the date of the balance sheet.
- D. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalent

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

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

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

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

Group and the amount of the dividend can be measured reliably.

(8) Financial assets at amortized cost

- A. Financial assets at amortized cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognized in profit or loss when the asset is derecognized or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(9) Accounts and notes receivable

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

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

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

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

- A. Financial liabilities are classified in this category of held for trading-if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also

categorised as financial liabilities held for trading unless they are designated as hedges, or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

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

(13) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(14) Convertible bonds payable

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

- A. The embedded call options and put options are recognized 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 recognized as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
- B. The host contracts of bonds or are initially recognized at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortized in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.
- C. The embedded conversion options which meet the definition of an equity

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

- D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.
- E. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'capital surplus—share options'.

(15) Derecognition of financial liabilities

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

(16) Inventory

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

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

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

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

(18) Investment in affiliates

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

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

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

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

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

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

(19) Property, plant and equipment

A. Recognition and measurement

Property, plant and equipment shall be recognized and measured using a cost model, and measured at the cost less accumulated depreciation and accumulated impairment. The costs include the expenses directly attributable to the acquisition

of assets. The costs of self-built assets include the costs of raw materials and direct labor, any other costs directly attributable to usable status of investment assets, costs of dismantling and removal of the items and recovery of premises, and loan cost that meets the requisite asset capitalization. Meanwhile, the costs also include the purchase of property, plant and equipment denominated in foreign currency.

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

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

**B. After cost**

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

**C. Depreciation**

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

No depreciation of land is required.

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

Item	Useful years
House and building	
Plant and dormitory	20-50
Clean room	20
Electrical and mechanical facilities	20
Others	10-20
Machine & equipment	5-13

Transportation equipment	4-6
Furniture and fixtures	3-10
Research equipment	2-13
Other equipments	3-9
Assets leased to others	5

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

(20) Leasing arrangements (lessor) – lease receivables/ operating leases

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

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

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

(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.

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

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

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

Lease payments are comprised of the following:

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

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

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

- (d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
  - (a) The amount of the initial measurement of lease liability;
  - (b) Any lease payments made at or before the commencement date;
  - (c) Any initial direct costs incurred by the lessee; and
  - (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

- D. For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize the difference between remeasured lease liability in profit or loss.

## (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. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 1 to 5 years.

- C. Internally generated intangible assets—research and development expenditures
- (a) Research expenditures are recognized as an expense as incurred.
  - (b) Development expenditures that do not meet the following criteria are recognized as expenses as incurred, but are recognized 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 Group will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization without impairment.
- B. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face value. The impairment loss on goodwill shall not be reversed in following years.
- C. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit group expected to benefit from the merger of businesses generating the goodwill.

(24) Reserve for liabilities

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

be made of the amount of the obligation.

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

(25) Treasury stock

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

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

(26) Revenue recognition

A. Sales of goods

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

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

**B. Labor service**

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

**C. Financing components**

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

**D. Incremental costs of obtaining a contract**

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

(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 Group, 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 Group will not state the benefits as expenses until the offer of benefits cannot be withdrawn or the related reorganization cost is stated, whichever

earlier. It is not expected that benefits falling due more than 12 months after balance sheet date are discounted to their present value.

D. Remuneration to employee and directors/supervisors

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

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

C. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction

(exclusive of business merger) shall not be recognized; insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Group and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.

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

(32) Business combination

- A. The Group adopts the acquisition method to proceed with business combination. The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be

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

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

(33) EPS

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

(34) Information by department

The Group consists of various members including the operations engaged in operating activities likely to earn revenue and incur expense (including the revenue and expense from the transactions with the other members within the Group). The operating results of all operations are rechecked by the Group's operating decision maker periodically for making of the decision to allocate resources to each operation and evaluation of each operation's performance. Each operation's financial information is independent from that of the others.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ

from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

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

Revenue recognition on a net/gross basis

- (1) The Group determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for the other party to provide those goods or services (i.e. the Group is an agent) based on the transaction model and its economic substance. The Group is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Group recognises revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Group is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Group recognises revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services.
- (2) Indicators that the Group controls the good or service before it is provided to a customer include the following:
  - (a) The Group is primarily responsible for the provision of goods or services;
  - (b) The Group assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer.
  - (c) The Group has discretion in establishing prices for the goods or services.

B. Critical accounting estimates and assumptions

(1) Allowance for uncollectible of receivable accounts

The Group evaluates and estimates the collectible receivable accounts and allowance for uncollectible accounts according to the loan quality and collection of debt from customers and based on the past experience in collecting allowance for uncollectible accounts. If some event or change resulting in failure to collect the debt shows, it is necessary to estimate the allowance for uncollectible accounts. If the projected collected cash is different from the estimation, the difference will affect the book value of receivable accounts and expected credit loss in the year in which the estimation is changed. Until September 30, 2020, the book value of receivable accounts has been NT\$1,169,575 thousand (exclusive of the allowance for uncollectible accounts, NT\$15,661 thousand).

(2) Evaluation of inventory

The inventories shall be stated at the lower of cost and net realizable present value.

Therefore, the Group has to decide the net realizable present value of the inventory on the balance sheet date based on judgment and estimation. Due to the rapid transformation of technology, the Group evaluates the value of inventories after excluding the torn and worn, out-of-fashion or unmarketable ones on the balance sheet date, and offset the cost of inventories against net realizable value. Until September 30, 2020, the book value of the Group's inventories has been NT\$2,388,441 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT\$291,065 thousand).

(3) Realizability of deferred income tax assets

Deferred income tax assets shall be recognized only when it is very likely that there will be sufficient taxable income afford to deduct temporary difference. To evaluate the realizability of deferred income tax assets, the management has to exert judgment and estimation, including the hypotheses about expectation toward growth and profit rate of future sale revenue, applicable income tax credit and taxation planning. The transformation of global economic environments and industrial environments and changes in laws and regulations, if any, might result in material adjustment on deferred income tax assets. Until September 30, 2020, the deferred income tax assets recognized by the Group have been NT\$114,232 thousand.

(4) Recognition of revenue

In principle, sales revenue is recognized at the time the earning process. The related reserve for liabilities is provided based on the estimated after-sale warranty cost potentially incurred due to historical experience and other known causes, and stated as the sale cost in the period in which the product is sold. The reasonableness of estimation is also reviewed periodically. Until September 30, 2020, the reserve for liabilities recognized by the Group have been NT\$6,991 thousand.

(5) Calculation of net defined benefit liability

In the calculation of the determined welfare obligation, the Group must make use of judgment and estimate to determine relevant actuarial assumption on the balance sheet date, including the discount rate and growth of future salary. Any changes in the actuarial hypotheses might affect the value of the Group's defined benefit obligation materially. As of September 30, 2020, the book value of accrual pension liabilities of the Group amounted to NT\$30,271 thousand.

## 6. Notes to Major Accounting Titles

### (1) Cash and cash equivalents

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Cash:			
Cash on hand	\$ 3,979	\$ 5,015	\$ 4,027
Cash in banks:			
Checking deposits	10	10	10
Demand deposits	1,075,173	1,075,301	813,960
Time deposits	35,442	22,985	40,168
Total	<u>\$ 1,114,604</u>	<u>\$ 1,103,311</u>	<u>\$ 858,165</u>

The bank deposits provided by the Group as collateral have been re-stated as other current assets. Please see Note 8.

### (2) Financial assets at amortized cost-current

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Financial products	\$ —	\$ —	\$ —

A. The Group recognized interest revenue of financial assets at amortized cost were NT\$0 and NT\$736 thousand respectively start from January to September 30, at 2020 and 2019.

B. As at September 30, 2020, December 31, 2019 and September 30, 2019, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortized cost held by the Group were NT\$0.

C. The Group's financial assets at amortized cost were not been provided as collateral on September 30, 2020, December 31, 2019 and September 30, 2019.

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

### (3) Notes receivable, net

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Notes receivable	\$ 51,643	\$ 96,074	\$ 92,069
Less: Allowance for uncollectible accounts	—	—	—
Notes receivable, net	<u>\$ 51,643</u>	<u>\$ 96,074</u>	<u>\$ 92,069</u>

A. The Group's receivable notes were issued for business and never been provided as collateral.

B. The ageing analysis of notes receivable is stated as follows:

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
	<u>Total</u>	<u>Impairment</u>	<u>Total</u>	<u>Impairment</u>	<u>Total</u>	<u>Impairment</u>
Neither past due nor impaired	\$ 51,643	\$ —	\$ 96,074	\$ —	\$ 92,069	\$ —
1~90 days	—	—	—	—	—	—
91 to 180 days	—	—	—	—	—	—

181 to 360 days	—	—	—	—	—	—
361 to 720 days	—	—	—	—	—	—
Over 721 days	—	—	—	—	—	—
Total	<u>\$ 51,643</u>	<u>\$ —</u>	<u>\$ 96,074</u>	<u>\$ —</u>	<u>\$ 92,069</u>	<u>\$ —</u>

The above ageing analysis was based on account day.

C. As of September 30, 2020, December 31, 2019 and September 30, 2019, notes receivable were all from contracts with customers.

**(4) Accounts receivable, net**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Accounts receivable	\$ 1,133,386	\$ 1,256,673	\$ 1,081,082
Less: Allowance for uncollectible accounts	(15,454)	(22,581)	(13,995)
Accounts receivable, net	<u>\$ 1,117,932</u>	<u>\$ 1,234,092</u>	<u>\$ 1,067,087</u>

Accounts receivable-related parties  
: N/A.

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Overdue receivable (stated as other non-current assets)	\$ 207	\$ 519	\$ 146
Less: Allowance for uncollectible accounts	(207)	(519)	(146)
Overdue receivable, net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

A. The Group's receivable accounts were incurred for business and never been provided as collateral.

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

	<u>Group provision</u>	<u>Individual provision</u>	<u>Total</u>
At January 1, 2020	\$ 23,100	\$ —	\$ 23,100
Provision for impairment	—	—	—
Reversal of impairment	(6,388)	—	(6,388)
Write-offs during the period	(801)	—	(801)
Unwinding of discount and premium	(250)	—	(250)
At September 30, 2020	<u>\$ 15,661</u>	<u>\$ —</u>	<u>\$ 15,661</u>
At January 1, 2019	\$ 14,100	\$ —	\$ 14,100
Provision for impairment	2,761	—	2,761
Reversal of impairment	—	—	—
Write-offs during the period	(2,705)	—	(2,705)
Unwinding of discount and premium	(15)	—	(15)
At September 30, 2019	<u>\$ 14,141</u>	<u>\$ —</u>	<u>\$ 14,141</u>

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

	<b>September 30, 2020</b>		<b>December 31, 2019</b>		<b>September 30, 2019</b>	
	Total	Impairment	Total	Impairment	Total	Impairment
Neither past due nor impaired	\$ 970,371	\$ –	\$1,028,275	\$ –	\$ 936,861	\$ –
1~90 days	136,996	9,590	181,027	12,671	114,624	8,024
91 to 180 days	15,403	2,310	32,138	4,821	19,260	2,889
181 to 360 days	7,016	1,754	10,112	2,528	8,345	2,086
361 to 720 days	3,600	1,800	5,121	2,561	1,992	996
Over721 days	207	207	519	519	146	146
<b>Total</b>	<b>\$ 1,133,593</b>	<b>\$ 15,661</b>	<b>\$1,257,192</b>	<b>\$ 23,100</b>	<b>\$ 1,081,228</b>	<b>\$ 14,141</b>

The above ageing analysis was based on past due date.

D. As of September 30, 2020, December 31, 2019 and September 30, 2019, accounts receivable were all from contracts with customers.

### **(5) Inventories**

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Raw materials	\$ 744,893	\$ 635,425	\$ 629,423
Supplies	138,038	119,819	130,784
Work-in-process	480,754	402,527	449,606
Semi-finished goods	398,794	348,015	339,019
Finished goods	840,303	927,206	916,016
Merchandise	76,679	120,756	132,304
Materials and supplies in transit	45	11,545	8
Less : Allowance to reduce inventory to market	(291,065)	(310,777)	(300,551)
<b>Inventories, net</b>	<b>\$ 2,388,441</b>	<b>\$ 2,254,516</b>	<b>\$ 2,296,609</b>

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

	<b>Jul 1-Sep 30, 2020</b>	<b>Jul 1-Sep 30, 2019</b>	<b>Jan 1-Sep 30, 2020</b>	<b>Jan 1-Sep 30, 2019</b>
Cost of inventories sold	\$ 799,984	\$ 838,851	\$ 2,448,841	\$ 2,347,359
Loss on market price decline inventories (gain from price recovery)	8,501	8,582	(19,712)	44,840
Loss on obsolescence of inventories	657	5,258	1,528	5,258
Other operating costs-employees' bonus	13,347	8,498	35,611	16,986
Estimated warranty liabilities	1,422	3,400	7,772	8,861
Depreciation of assets leased to others	—	2,002	—	2,002
<b>Operating Cost</b>	<b>\$ 823,911</b>	<b>\$ 866,591</b>	<b>\$ 2,474,040</b>	<b>\$ 2,425,306</b>

B. As of September 30, 2020, December 31, 2019 and September 30, 2019, inventories of the Group were not pledged as collateral.

### **(6) Property, plant and equipment**

A. The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Land	Buildings	Machinery	Transportation	Office equipment	Research equipment	Other equipment	Leased assets	Assets leased to others	Construction in progress	Total
<b>Cost:</b>											
At January 1, 2020	\$ 770,963	\$ 1,569,824	\$ 1,484,847	\$ 1,818	\$ 63,119	\$ 709,680	\$ 46,326	\$ -	\$ -	\$ 233,416	\$ 4,879,993
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-	-
Additions	-	-	36,914	-	3,495	10,519	222	-	-	240,021	291,171
Disposals	-	-	(38,338)	-	(9,530)	(137,145)	(1,552)	-	-	-	(186,565)
Reclassifications	-	-	66,983	-	111	47,132	-	-	-	(227)	113,999
Effect of movements in exchange rate	-	(1,128)	(27,176)	(75)	(441)	-	(1,553)	-	-	(13)	(30,386)
At September 30, 2020	<u>\$ 770,963</u>	<u>\$ 1,568,696</u>	<u>\$ 1,523,230</u>	<u>\$ 1,743</u>	<u>\$ 56,754</u>	<u>\$ 630,186</u>	<u>\$ 43,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473,197</u>	<u>\$ 5,068,212</u>
<b>Cost:</b>											
At January 1, 2019	\$ 770,963	\$ 1,569,383	\$ 1,493,629	\$ 2,518	\$ 68,630	\$ 748,872	\$ 49,343	\$ 79,415	\$ -	\$ 18,543	\$ 4,801,296
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-	-
Additions	-	620	49,561	1,828	7,191	6,165	24	-	-	80,018	145,407
Disposals	-	-	(118,183)	(2,515)	(12,584)	(40,305)	(261)	-	-	-	(173,848)
Reclassifications	-	-	11,266	-	246	6,331	82	(79,415)	10,385	-	(51,105)
Effect of movements in exchange rate	-	(52)	(2,150)	(4)	(117)	-	(543)	-	(10)	-	(2,876)
At September 30, 2019	<u>\$ 770,963</u>	<u>\$ 1,569,951</u>	<u>\$ 1,434,123</u>	<u>\$ 1,827</u>	<u>\$ 63,366</u>	<u>\$ 721,063</u>	<u>\$ 48,645</u>	<u>\$ -</u>	<u>\$ 10,375</u>	<u>\$ 98,561</u>	<u>\$ 4,718,874</u>
<b>Accumulated depreciation and impairment :</b>											
At January 1, 2020	\$ -	\$ 421,928	\$ 969,447	\$ 124	\$ 35,263	\$ 477,630	\$ 41,658	\$ -	\$ -	\$ -	\$ 1,946,050
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-	-
Additions	-	51,923	156,451	255	10,243	70,103	2,450	-	-	-	291,425
Disposals	-	-	(38,275)	-	(9,475)	(137,145)	(1,552)	-	-	-	(186,447)
Reclassifications	-	-	-	-	(24)	-	24	-	-	-	-
Effect of movements in exchange rate	-	(186)	(21,246)	(10)	(331)	-	(1,447)	-	-	-	(23,220)
At September 30, 2020	<u>\$ -</u>	<u>\$ 473,665</u>	<u>\$ 1,066,377</u>	<u>\$ 369</u>	<u>\$ 35,676</u>	<u>\$ 410,588</u>	<u>\$ 41,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,027,808</u>
<b>Accumulated depreciation and impairment :</b>											
At January 1, 2019	\$ -	\$ 352,706	\$ 865,037	\$ 2,518	\$ 37,540	\$ 425,726	\$ 39,477	\$ 47,649	\$ -	\$ -	\$ 1,770,653
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-	-
Additions	-	51,931	178,569	37	11,176	79,483	4,271	-	2,002	-	327,469
Disposals	-	-	(112,600)	(2,515)	(12,501)	(40,305)	(261)	-	-	-	(168,182)
Reclassifications	-	-	(5,855)	-	-	-	25	(47,649)	5,792	-	(47,687)
Effect of movements in exchange rate	-	(6)	(1,745)	(3)	(140)	-	(523)	-	(7)	-	(2,424)
At September 30, 2019	<u>\$ -</u>	<u>\$ 404,631</u>	<u>\$ 923,406</u>	<u>\$ 37</u>	<u>\$ 36,075</u>	<u>\$ 464,904</u>	<u>\$ 42,989</u>	<u>\$ -</u>	<u>\$ 7,787</u>	<u>\$ -</u>	<u>\$ 1,879,829</u>
<b>Book value</b>											
At September 30, 2020	<u>\$ 770,963</u>	<u>\$ 1,095,031</u>	<u>\$ 456,853</u>	<u>\$ 1,374</u>	<u>\$ 21,078</u>	<u>\$ 219,598</u>	<u>\$ 2,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473,197</u>	<u>\$ 3,040,404</u>
At December 31, 2019	<u>\$ 770,963</u>	<u>\$ 1,147,896</u>	<u>\$ 515,400</u>	<u>\$ 1,694</u>	<u>\$ 27,856</u>	<u>\$ 232,050</u>	<u>\$ 4,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,416</u>	<u>\$ 2,933,943</u>
At September 30, 2019	<u>\$ 770,963</u>	<u>\$ 1,165,320</u>	<u>\$ 510,717</u>	<u>\$ 1,790</u>	<u>\$ 27,291</u>	<u>\$ 256,159</u>	<u>\$ 5,656</u>	<u>\$ -</u>	<u>\$ 2,588</u>	<u>\$ 98,561</u>	<u>\$ 2,839,045</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 and October 2019. The total contract amount was NT\$724,000 thousand.
- C. As of September 30, 2020, December 31, 2019 and September 30, 2019, the collateralized land and building for loans amounted please see note 8 for details.
- D. Total capitalized interest see note 6 (18) B for details.
- E. About assets leased to others as follows :
- The group has in July 2019 signed a leasing contract with a non-stakeholder for a one-year production equipment server contract, and the two parties collectively agree to collaborate by means of principle of good faith and mutual benefit to achieve the integrated operating yield. The two parties consent to set the leasing period to span from July 15, 2019 to July 14, 2020. The monthly rent is RMB144, 000 (excluding the VAT). The contract was early terminated on December 31, 2019.

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

A. Leasing arrangements – lessee

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

	<u>September 30, 2020</u>	<u>Jan 1~Sep 30, 2020</u>	<u>September 30, 2019</u>	<u>Jan 1~Sep 30, 2019</u>
	Carrying amount	Depreciation charge	Carrying amount	Depreciation charge
Land	\$ 34,151	\$ 7,375	\$ 31,848	\$ 6,690
Buildings	31,307	35,561	49,720	35,650
Machinery and equipment	3,783	11,592	19,816	11,901
Transportation(Business vehicles)	57,332	19,121	50,397	17,113
Total	<u>\$ 126,573</u>	<u>\$ 73,649</u>	<u>\$ 151,781</u>	<u>\$ 71,354</u>

- (c) For the nine-month periods ended September 30, 2020 and 2019, the additions to right-of-use assets were NT\$57,309 thousand and NT\$66,650 thousand respectively.

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

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~ Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~ Sep 30, 2019</u>
<u>Items affecting profit or loss</u>				
Interest expense on lease liabilities	\$ 958	\$ 921	\$ 2,848	\$ 2,671
Expense on short-term lease contracts	\$ 1,798	\$ 2,469	\$ 5,790	\$ 7,104
Gains(losses) on lease modification	\$ —	\$ 6	\$ 158	\$ 52

- (e) For the nine-month periods ended September 30, 2020 and 2019, the Group's total cash outflow for leases were NT\$77,833 thousand and NT\$73,241 thousand respectively.
- (f) The Group has applied the practical expedient of "Covid-19-related rent concessions", and recognized the gain from changes in lease payments arising from the rent concessions amounting to NT\$485 thousand by increasing other income for the nine-month period ended September 30, 2020.

**B. Lease liabilities**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Current	\$ 64,851	\$ 84,235	\$ 77,283
Noncurrent	64,885	67,752	75,230
Total	<u>\$ 129,736</u>	<u>\$ 151,987</u>	<u>\$ 152,513</u>

- (a) Please refer to Note 6(18) B. for the interest expense of lease liabilities.
- (b) The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.38%~4.5% and 1.42%~4.5% as of nine-month periods ended September 30, 2020 and September 30, 2019.

**C. Leasing arrangements – lessor**

- (a) The Group leases various assets including part of office buildings and machinery and equipment. Rental contracts are typically made for periods within one year. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes.
- (b) For the nine-month periods ended September 30, 2020 and September 30, 2019, the Group recognized rent income in the amount of NT\$7,180 thousand and NT\$7,968 thousand, based on the operating lease agreement, which does not include variable lease payments.

**(8) Intangible assets**

The costs of intangible assets, amortization, and the impairment loss of the Group as of and for the nine-month periods ended September 30, 2020 and 2019 were as follows:

<u>2020</u>	<u>Goodwill</u>	<u>Computer software</u>	<u>Total</u>
<b>January 1, 2020</b>	\$ —	\$ 34,803	\$ 34,803
Addition	—	13,087	13,087
Reclassification	—	—	—
Amortization expenses	—	(25,670)	(25,670)
Impairment	—	—	—
Exchange difference, net	—	(12)	(12)
<b>September 30, 2020</b>	<u>\$ —</u>	<u>\$ 22,208</u>	<u>\$ 22,208</u>

<b>2019</b>	<b>Goodwill</b>	<b>Computer software</b>	<b>Total</b>
<b>January 1, 2019</b>	\$ —	\$ 41,575	\$ 41,575
Addition	—	17,216	17,216
Reclassification	—	—	—
Amortization expenses	—	(23,147)	(23,147)
Impairment	—	—	—
Exchange difference, net	—	—	—
<b>September 30, 2019</b>	<b>\$ —</b>	<b>\$ 35,644</b>	<b>\$ 35,644</b>

	<b>Goodwill</b>		
	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Cost	\$ 45,533	\$ 45,533	\$ 45,533
Accumulated impairment	(45,533)	(45,533)	(45,533)
Net book value	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

#### A. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other non-current assets) for the three-month and nine-month periods ended September 30, 2020 and 2019, respectively, were stated as the following items in the comprehensive income statement:

	<b>Jul 1~Sep 30, 2020</b>	<b>Jul 1~Sep 30, 2019</b>	<b>Jan 1~Sep 30, 2020</b>	<b>Jan 1~Sep 30, 2019</b>
Operating cost	\$ 5,920	\$ 6,835	\$ 18,687	\$ 22,940
Operating expense	7,516	8,947	25,330	24,144
Total amortization expenses	<b>\$ 13,436</b>	<b>\$ 15,782</b>	<b>\$ 44,017</b>	<b>\$ 47,084</b>

#### B. R&D expenditure

Research and development expenditures are recognized as Operating-Research and development, which represented NT\$174,226 thousand, NT\$174,081 thousand, NT\$ 496,436 thousand and NT\$532,948 thousand for the three-month and nine-month periods ended September 30, 2020 and 2019, respectively.

#### C. Goodwill Impairment Charges

Upon the discussion of the management and report to the Board of Directors on March 24 of 2017, the Group has, according to the forecasted cash flow of Allstron Probing Solution, recognized the difference between the investment cost of the original investment day and the net equity value in the goodwill impairment loss with a value of NT\$45,533 thousand for the year of 2016.

### (9) **Other non-current assets**

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Prepayments for equipment	\$ 60,641	\$ 53,311	\$ 72,875
Refundable deposit	77,269	30,749	22,871
Deferred charges	23,928	39,165	41,639
Total	<b>\$ 161,838</b>	<b>\$ 123,225</b>	<b>\$ 137,385</b>

The costs of deferred charges, amortization, and the impairment loss of the Group for the

nine-month periods ended September 30, 2020 and 2019 were as follows:

	<u>Deferred Charges</u>		<u>Deferred Charges</u>
<b>January 1, 2020</b>	\$ 39,165	<b>January 1, 2019</b>	\$ 59,860
Addition	3,659	Addition	5,759
Reclassification	—	Reclassification	—
Amortization expenses	(18,347)	Amortization expenses	(23,937)
Reclassifications	—	Reclassifications	—
Impairment	—	Impairment	—
Exchange difference, net	(549)	Exchange difference, net	(43)
<b>September 30, 2020</b>	<u>\$ 23,928</u>	<b>September 30, 2019</b>	<u>\$ 41,639</u>

**(10) Short-term loan**

Nature	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
	Amounts	Interest rates	Amounts	Interest rates	Amounts	Interest rates
Credit loan	\$ —	—	\$ —	—	\$ 450,000	0.85%~ 1.01%
Secured borrowings	—	—	500,000	0.89%	250,000	1.01%
Total	<u>\$ —</u>		<u>\$ 500,000</u>		<u>\$ 700,000</u>	

A. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note 12(2).

B. Collateral for bank loan.

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

**(11) Other payable accounts**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Payable expenses	\$ 483,086	\$ 584,612	\$ 438,269
Payable employees' remuneration	63,299	46,450	28,998
Short-term employee benefits	22,799	49,247	52,724
Others (less than 5%)	24,621	28,525	24,184
Total	<u>\$ 593,805</u>	<u>\$ 708,834</u>	<u>\$ 544,175</u>

**(12) Reserve for liabilities**

	<u>Warranty</u>		<u>Warranty</u>		<u>Warranty</u>
At January 1, 2020	\$ 6,572	At January 1, 2019	\$ 4,859	At January 1, 2019	\$ 4,859
Provision made/(Payment)	419	Provision made/(Payment)	1,713	Provision made/(Payment)	759
At September 30, 2020	<u>\$ 6,991</u>	At December 31, 2019	<u>\$ 6,572</u>	At September 30, 2019	<u>\$ 5,618</u>
Current	\$ 6,991	Current	\$ 6,572	Current	\$ 5,618
Non-current	—	Non-current	—	Non-current	—
At September 30, 2020	<u>\$ 6,991</u>	At December 31, 2019	<u>\$ 6,572</u>	At September 30, 2019	<u>\$ 5,618</u>

The Group's reserve for warranty and liabilities for the nine-month periods ended September 30, 2020 and 2019 was primarily related to the sale of semi-conductor production process and testing equipments. The reserve for warranty and liabilities was estimated based on the historical warranty information. The Group expects that the liabilities would be mostly incurred in the following year of the sale.

### **(13) Corporate bonds-payable**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
4th domestic unsecured convertible bonds	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Less : Bonds transferred to common stock	(753,400)	(4,000)	(1,000)
Less : Convertible corporate bonds repayment due	—	—	—
Less : Buy back from open market	(36,700)	(36,700)	(36,700)
Less : Discount of bonds payable	(9,917)	(56,815)	(60,803)
Corporate bonds-payable, net	<u>\$ 199,983</u>	<u>\$ 902,485</u>	<u>\$ 901,497</u>
Current	\$ 199,983	\$ —	\$ —
Non-current	—	902,485	901,497
Total	<u>\$ 199,983</u>	<u>\$ 902,485</u>	<u>\$ 901,497</u>
Embedded derivative- Financial (Assets) liabilities	\$ (1,637)	\$ 384	4,330
Equity element	<u>\$ 14,718</u>	<u>\$ 67,269</u>	<u>\$ 67,480</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.
- Ⓓ The Company's board of directors reported on July 10, 2020 about the issuance of the 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 July 26, 2020, the Company's 4th domestic unsecured convertible corporate bonds shall be adjusted as NT\$67.40 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. (a) For the year ended December 31, 2019, the accumulation of the 4th domestic unsecured conversion of corporate bonds had been issued 57,338 shares with face value of NT\$4,000 thousand, and recognized NT\$3,465 thousand as Capital Surplus-Additional Paid-In Capital-Bond Conversion.
- (b) For the nine-month period ended September 30, 2020, the accumulation of the 4th domestic unsecured conversion of corporate bonds had been issued 11,109,624 shares with face value of NT\$749,400 thousand, and recognized NT\$648,090 thousand as Capital Surplus-Additional Paid-In Capital-Bond Conversion.
- C. The Company analyzed the 4th domestic unsecured convertible corporate bonds according to IFRS No.7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively. The information about convertible corporate bonds in the financial statements is stated as following:

	August 15, 2018 (Issuing date)
Total issuing amount of convertible corporate bond	\$ 1,001,000
Cost of convertible corporate bond	(5,381)
Elements of equity at the time of issuance - conversion option	(70,124)
Embedded financial derivatives at the time of issuance	(6,400)
Corporate bond payable, net on the issuing date	<u>\$ 919,095</u>

The elements of equity were stated into capital surplus-stock option at the time of issuance. At the time of issuance, the fair value of embedded non-equity derivative was re-evaluated at the end of every month, which was stated into the "from financial assets and liabilities at fair value through profit or loss".

The effective interest rate of the 4th unsecured convertible bonds after host contracts separation is 1.6885%.

- D. (a) Financial assets and liabilities profit(loss) measured at fair value through profit or loss of the Group as of September 30, 2020 and 2019 were NT\$7,595 thousand and NT\$4,921 thousand.
- (b) The Group recognized interest expense of convertible bonds were NT\$9,708 thousand and NT\$11,344 thousand start from January to September 30, at 2020 and 2019.
- E. (a) For the year ended December 31, 2019, the 4th unsecured convertible bonds in the amount of NT\$1,900 thousand were repurchased by the company from open market, buy back price is NT\$ 1,802 thousand that is shared to liabilities and equity with difference between book value, is recognized as form treasury stock transaction NT\$ 19 thousand and recognized in gain on repurchase of convertible bonds NT\$82 thousand in 2019 (stated as other revenue-others).
- (b) Till September 30, 2020, the 4th unsecured convertible bonds in the amount of

NT\$36,700 thousand were repurchased by the company from open market, buy back price is NT\$34,832 thousand that is shared to liabilities and equity with difference between book value, is recognized as form treasury stock transaction NT\$387 thousand.

**(14) Long-term Loans**

<u>Lender</u>	<u>Nature</u>	<u>Amount</u>	<u>Period</u>	<u>September 30, 2020</u>
Chang Hwa Bank –Chengnei Branch	Secured bank borrowings	\$ 1,134,880	2019.11.08~2029.10.15	\$ 629,280
Less: Long-term Loans payable-current portion				—
Long-term Loans, net				<u>\$ 629,280</u>
Interest rates for long-term loans				<u>0.63%~0.88%</u>

<u>Lender</u>	<u>Nature</u>	<u>Amount</u>	<u>Period</u>	<u>December 31, 2019</u>
Chang Hwa Bank –Chengnei Branch	Secured bank borrowings	\$ 1,134,880	2019.11.08~2029.10.15	\$ 142,208
Less: Long-term Loans payable-current portion				—
Long-term Loans, net				<u>\$ 142,208</u>
Interest rates for long-term loans				<u>0.88%</u>

<u>Lender</u>	<u>Nature</u>	<u>Amount</u>	<u>Period</u>	<u>September 30, 2019</u>
Land Bank –Tunghsinchu Branch	Secured bank borrowings	\$ 600,000	2017.11.28~2020.11.28	\$ — (Note)
Land Bank –Tunghsinchu Branch	Secured bank borrowings	\$ 163,000	2009.03.02~2022.03.02	— (Note)
Less: Long-term Loans payable-current portion				—
Long-term Loans, net				<u>\$ —</u>
Interest rates for long-term loans				<u>—</u>

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

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

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

**(15) Pension Benefits**

- A. Defined benefit plan
  - (a) The Company and its domestic subsidiaries have instituted regulations for the defined pension plan under the “Labor Standards Law” applicable to the years of services of employees before July 1, 2005, which is the day that the new “Labor Pension Act” came into full force, and the following years of services of employees who choose to continue applying the Labor Standard Law upon enforcement of the Labor Pension Act. Employees who meet the retirement

requirements will be paid the pension based on their years of service and average salary or wage of the last six (6) months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The Company and its domestic subsidiaries contribute 2% of the total salaries of the employees to the special pension fund account with Bank of Taiwan supervised by the Employee Pension Fund Reserve Supervisory Committee. Until the end of September 2020, the balance of the pension funds contributed to the special pension fund account at Bank of Taiwan was NT\$82,767 thousand.

- (b) For the aforementioned pension plan, the Group recognized pension costs of NT\$384 thousand and NT\$4,254 thousand dollars for the nine-month periods ended September 30, 2020 and 2019, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the next annual reporting period as at September 30, 2020 is NT\$3,577 thousand.

#### B. Defined contribution plans

- (a) As of July 1, 2005, the Group instituted the defined contribution retirement plan according to the "Labor Pension Act", applicable to the native employees. The Group shall contribute the amount equivalent to 6% of the monthly salary of respective native employees to the individual pension accounts of the employees at Labor Insurance Bureau, with respect to the labor pension system under the "Labor Pension Act" chosen by employees. Retired employees may claim for pension disbursement in accordance with the status of their individual accounts and the cumulative contribution in the account through monthly payment or in lump sum.
- (b) Foreign subsidiaries shall contribute specific ratio of the local employees' total salary, on a monthly basis, as the pension or fund of endowment insurance according to the local government regulations. The pension of each employee shall be arranged and managed by government. Except that the subsidiaries shall be obligated to contribute the fund on a monthly basis, the subsidiaries shall bear no other obligations.
- (c) The pension expenses recognized under the Group's defined contributed pension regulations were NT\$44,532 thousand and NT\$46,651 thousand for the nine-month periods ended September 30, 2020 and 2019, respectively.

## **(16) EQUITY**

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

Unit: share

	Jan 1~Sep 30, 2020	2019	Jan 1~Sep 30, 2019
At the beginning of the period	79,958,726	79,901,388	79,901,388
Convertible Bonds Transferred To Common Stock	11,109,624	57,338	13,986
At the end of the period	91,068,350	79,958,726	79,915,374

## B. Capital surplus

(a) Pursuant to the R.O.C. Company Law amended in January 2012, capital surplus shall be first used to offset a deficit and then new shares or cash may be allocated based on realized capital surplus subject to shareholdings. Realized capital surplus referred to in the preceding paragraph included the surplus generated from donations and the excess of the issuance price over the par value of capital stock. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital.

(b) The balance of the Company's capital surplus:

	September 30, 2020	December 31, 2019	September 30, 2019
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note1)</u>			
Common stock premium	\$ 210,163	\$ 210,163	\$ 210,163
Convertible corporate bond conversion premium	1,245,496	597,406	594,805
Treasury Stock Transactions	58,623	58,623	58,623
<u>May be used to offset a deficit only (Note2)</u>			
Donation from shareholders	1	1	1
Invalidated employee shareholding pledging	27,005	27,005	27,005
<u>Such capital surplus may not be used for any purpose</u>			
Others-issuance of new shares due to acquisition of shares of another company	19,858	19,858	19,858
Stock option (Elements of equity of convertible corporate bonds)	14,718	67,269	67,480
Total	<u>\$ 1,575,864</u>	<u>\$ 980,325</u>	<u>\$ 977,935</u>

(Note1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

(Note2) Such type of capital reserve pertains to bequeathing to the accepting shareholders without cash inflow or reclassification of invalidated employee shareholding pledging.

Ⓐ The company issued the first, second and third Domestic unsecured convertible corporate bonds; The company recognized NT\$593,941 thousand as paid-in capital in excess of par-common stock and treasury stock transaction NT\$8,477 thousand.

- ⓑ The 3rd domestic unsecured conversion of corporate bonds pay off convertible corporate bonds at expiry, in addition to bondholders with converting right not requesting for the conversion to be invalidated, the initially classified “capital reserve – shareholding pledging” balance at NT\$27,005 thousand is reclassified as “capital reserve – invalidated shareholding pledging” item.
- ⓒ The group issued last time Domestic unsecured convertible corporate bonds; The company recognized NT\$49,759 thousand as paid-in capital in excess of par-common stock.
- ⓓ The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in September 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT\$1 thousand.
- ⓔ The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. On September 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT\$19,858 thousand on the date of investment, stated as capital surplus-others.

#### C. Retained earnings

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

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

(c) Legal reserve

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

(d) Special reserve

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

The Company provided special reserve NT\$14,248 thousand to shareholders by the shareholders' meeting from earnings 2019 on June 15, 2020.

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

(e) The Company proposed to allocate the cash dividend, NT\$199,897 thousand (NT\$2.5 per share) by the shareholders' meeting from earnings 2019 on June 15, 2020.

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.

(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".

D. Treasury stock : N/A

E. Share-based payment — employee compensation plan

As of September 30, 2020, information on outstanding ESO is shown below: None.

## (17) OPERATING INCOME

### A. Operating income

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>
Revenue from contracts with customers				
Sales revenue	\$ 1,447,903	\$ 1,397,673	\$ 4,259,559	\$ 3,819,512
Processing fees revenue	57,336	66,227	157,873	172,758
Others				
Commission revenue	201	1,891	2,458	2,483
Lease revenue	—	1,571	—	1,571
Total	<u>\$ 1,505,440</u>	<u>\$ 1,467,362</u>	<u>\$ 4,419,890</u>	<u>\$ 3,996,324</u>

### B. Contract assets and contract liabilities

The Group recognized the contract assets and contract liabilities of the revenue from contracts with customers as following:

(a) Contract assets: None.

(b) Contract liabilities as following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Contract liabilities-current			
Sales revenue received in advance	\$ 654,918	\$ 811,231	\$ 721,277
Total	<u>\$ 654,918</u>	<u>\$ 811,231</u>	<u>\$ 721,277</u>

Revenue recognized that was included in the contract liability balance at the beginning of the period:

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Revenue recognized that was included in contract liability balance at the beginning of the period				
Sales revenue received in advance transfer to revenue	\$ 159,929	\$ 98,379	\$ 657,980	\$ 495,713
Total	<u>\$ 159,929</u>	<u>\$ 98,379</u>	<u>\$ 657,980</u>	<u>\$ 495,713</u>

## (18) NON-OPERATING INCOME AND EXPENSES

### A. Other gains and losses, net

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Gains (losses) on disposal of property, plant and equipment	\$ 696	\$ 1,971	\$ 696	\$ 1,980
Gains (losses) on obsolescence of property, plant and equipment	—	(9)	—	(81)
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	3,086	962	7,595	4,921
Net currency exchange gains (losses)	4,292	(4,614)	(30,276)	9,407
Gains (losses) arising from lease modifications	—	(6)	158	52
Others	(407)	(1,202)	(481)	(1,322)
Total	<u>\$ 7,667</u>	<u>\$ (2,886)</u>	<u>\$ (22,308)</u>	<u>\$ 14,957</u>

## B. Financial cost

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Interest expense				
Bank borrowings	\$ 1,475	\$ 1,465	\$ 4,532	\$ 5,330
The convertible bonds	2,062	3,795	9,708	11,344
Interest of Financial Leasing	958	921	2,848	2,671
subtotal	4,495	6,181	17,088	19,345
Less: capitalization of interests	—	—	—	—
Total	\$ 4,495	\$ 6,181	\$ 17,088	\$ 19,345
Capitalized interest rate	0.63%~1.45%	0.76%~1.63%	0.63%~1.45%	0.76%~1.63%

## C. Interest income

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Interest income from bank deposits	\$ 979	\$ 1,193	\$ 3,529	\$ 3,177
Imputed interest from rent	15	39	82	110
Interest income from financial assets measured at amortized cost	—	—	—	736
Total	\$ 994	\$ 1,232	\$ 3,611	\$ 4,023

## (19) Income Tax

A. The Group's income tax expenses (gains) are specified as following:

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Current tax:				
Current tax on profits for the period	\$ 35,141	\$ 28,871	\$ 95,248	\$ 70,280
Adjustments in respect of prior years	(9)	17	(981)	(1,760)
Total current tax	35,132	28,888	94,267	68,520
Deferred tax:				
Origination and reversal of temporary differences	3,382	(7,244)	9,931	(23,576)
Impact of change in tax rate	—	—	—	—
Total deferred tax	3,382	(7,244)	9,931	(23,576)
Income tax expense	\$ 38,514	\$ 21,644	\$ 104,198	\$ 44,944

B. The Group recognized Income tax expenses in other comprehensive income are NT\$ 0 start from January to September, at 2020 and 2019.

C. The income tax expenses recognized under the title of equity are NT\$0 start from January to September, at 2020 and 2019.

D. The investment credit tax on deferred income tax assets which has been recognized by the Company before September 30, 2020 shall be credited by the following deadline:

<u>Item</u>	<u>Total credit</u>	<u>Deducted amount</u>	<u>Credited balance in current period</u>	<u>Balance to be credited</u>	<u>Last year of credit</u>
R&D expenditure (projected) in 2020	\$ 39,157	\$ —	\$ 36,625	\$ —	(non-deferred)
	\$ 39,157	\$ —	\$ 36,625	\$ —	

(Note)According to the "Regulations Governing Investment Credit Applicable to a Company's R&D Expenditure" promulgated on November 8, 2010, the tax credit shall be no more than 30% of the income tax payable in the year and prohibited from being deferred until next year.

E. Authorization of income tax:

	Year
MPI Corporation	2017
Chain-Logic International Corp.	2018
Allstron Corp	2018

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

	<u>Jul 1~ Sep 30, 2020</u>			<u>Jul 1~ Sep 30, 2019</u>		
	<u>Amount after tax</u>	<u>Weighted average number of outstanding common stock (thousand shares)</u>	<u>EPS (NT\$)</u>	<u>Amount after tax</u>	<u>Weighted average number of outstanding common stock (thousand shares)</u>	<u>EPS (NT\$)</u>
<b>Basic EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$ 221,138	88,345	\$ 2.50	\$ 143,012	79,910	\$ 1.79
<b>Diluted EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$ 221,138	88,345		\$ 143,012	79,910	
Effect of all potential diluted common stocks						
4th domestic unsecured convertible corporate bond	—	3,114		—	13,906	
Employee stock bonus	—	221		—	462	



Employee benefit expense						
Wages and salaries	763,804	644,793	1,408,597	669,049	551,243	1,220,292
Labor and health insurance expense	45,673	41,112	86,785	46,069	38,442	84,511
Pension costs	24,851	20,065	44,916	28,802	22,103	50,905
Director remuneration	—	15,200	15,200	—	4,531	4,531
Other personnel expense (Note)	77,176	22,072	99,248	67,409	21,466	88,875
Depreciation	270,853	94,221	365,074	314,273	82,548	396,821
Depletion	—	—	—	—	—	—
Amortization	18,687	25,330	44,017	22,940	24,144	47,084

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

- A. According to the Company's existing articles of incorporation, the Company shall allocate remuneration to employees and remuneration to directors/supervisors when allocating the earnings.
- B. The Company has approved the motion for amendments to the Articles of Incorporation on June 15, 2020:

If the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and not be higher than 3% thereof as the remuneration to directors. 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 on a pro rata basis as referred to in the preceding paragraph.

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

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

- C. The Company has approved the motion for amendments to the Articles of Incorporation on June 12, 2018:

If the Company retains income before tax after the account settlement, it shall allocate 0.1%~15% thereof as the remuneration to employees, and not be higher 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.

- D. For the three-month and nine-month periods ended September 30, 2020 and 2019, employees remuneration(bonus) was accrued at NT\$22,797 thousand, NT\$14,576 thousand, NT\$60,798 thousand and NT\$28,998 thousand, respectively, and directors' and supervisors' remuneration was accrued at NT\$5,700 thousand, NT\$4,177 thousand, NT\$15,200 thousand and NT\$7,249 thousand, respectively. The aforementioned amounts were recognized as salary expenses. The recognized expenses were accrued based on the earnings of current year.
- E. The remuneration to employees and directors/supervisors 2019 resolved to be allocated at the shareholders' meeting on June 15, 2020 by the Board of Directors meeting were NT\$43,950 thousand and NT\$9,920 thousand, respectively, identical with that recognized in the financial statement 2019, and the remuneration to employees will be paid in cash. The remuneration will be paid after the general shareholders' meeting 2020.
- 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 general shareholders' meeting 2019.
- G. The information about remuneration to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

**(22) Supplemental cash flow information**

A. Investing activities paid in cash in part only:

	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Purchase of property, plant and equipment	\$ 405,171	\$ 173,753
Add: opening balance of payable on equipment	65,720	22,722
Less: ending balance of payable on equipment	(17,336)	(21,532)
Cash paid during the period	<u>\$ 453,555</u>	<u>\$ 174,943</u>

B. Financing activities not affecting cash flow:

	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Convertible bonds being converted to capital stocks	\$ 111,097	\$ 140

## 7. Transactions with related parties

(1) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

(2) The names and relationship of related parties: None.

(3) Important transactions with related parties

The balance and transaction between the Company and its subsidiaries have been derecognized from the consolidated financial statements and were not disclosed accordingly. There was no transaction between the Group and other related parties for the nine-month ended September 30, 2020 and 2019.

(4) Information about remuneration to the management

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

	<u>Jul 1~Sep 30, 2020</u>	<u>Jul 1~Sep 30, 2019</u>	<u>Jan 1~Sep 30, 2020</u>	<u>Jan 1~Sep 30, 2019</u>
Salary and other short-term employee benefits	\$ 3,799	\$ 2,303	\$ 9,278	\$ 7,768
Resignation benefits	—	—	—	—
Retirement benefits	—	—	—	—
Other long-term benefits	—	—	—	—
Share-based payments	—	—	—	—
Total	<u>\$ 3,799</u>	<u>\$ 2,303</u>	<u>\$ 9,278</u>	<u>\$ 7,768</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 Group as the collaterals for bank loans, import business tax, sale commitment and notes payable. The book value thereof is stated as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Land	\$ 770,963	\$ 770,963	\$ 770,963
Buildings	811,603	831,450	838,065
Pledged demand deposit (stated as other current assets)	19,520	15,691	9,407
Pledged time deposit (stated as other current assets)	5,015	4,321	3,613
Total	<u>\$ 1,607,101</u>	<u>\$ 1,622,425</u>	<u>\$ 1,622,048</u>

## 9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: N/A.

(2) Commitment:

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

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Purchases of property, plant and equipment	\$ 265,081	\$ 478,144	\$ 366,387

**10. Significant disaster loss: N/A.**

**11. Significant subsequent events: N/A.**

**12. Others**

(1) Capital management

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

The Group controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Group maintained the same strategy in 2020 as that in 2019, dedicated to maintaining the debt/equity ratio in 50%~100%. The Company's debt ratios on September 30, 2020, December 31, 2019 and September 30, 2019 are stated as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Total liabilities	\$ 2,874,998	\$ 3,799,056	\$ 3,515,632
Total net worth	5,451,343	4,379,845	4,233,751
Debt/equity ratio	53%	87%	83%

(2) Financial instruments by category

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

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

- B. Risk management policies

- (a) The Group's financial risk management aims to manage the market risk, credit

risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.

- (b) The Group has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Group shall strictly comply with the requirements related to financial risk management defined by the Company.

### C. Significant financial risks and degrees of financial risks

#### (a) Market risk

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

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

#### Ⓐ Foreign exchange risk

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

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

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Group's income and equity. The Group's foreign exchange risk arises primarily

from fluctuation in the foreign exchange rate of USD, Japanese Yen and Euro and RMB.

The Group's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or KRW). 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:

<b>September 30, 2020</b>				
<b>Currency unit</b>	<b>Amount in foreign currency (thousand dollars)</b>	<b>Applicable foreign exchange rate, ending (Dollar)</b>	<b>Book value (NTD) (thousand dollars)</b>	
<b>Financial assets</b>	NTD/USD	\$ 29,372	\$ 28.992	\$ 851,543
	NTD/JPY	\$ 7,862	0.27471	\$ 2,160
	NTD/EUR	\$ 1,535	34.02	\$ 52,205
	NTD/RMB	\$ 104,352	4.2423	\$ 442,690
	NTD/KRW	\$ 5,188	0.0251	\$ 130
	NTD/HKD	\$ 12	3.7	\$ 44
	NTD/MYR	\$ 16	6.7035	\$ 107
	NTD/SGD	\$ 14	21.135	\$ 293
	NTD/PHP	\$ 91	0.5934	\$ 54
	NTD/GBP	\$ 54	37.1726	\$ 2,026
	NTD/INR	\$ 10	0.3884	\$ 4
<b>Financial liabilities</b>	NTD/USD	\$ 8,239	29.154	\$ 240,208
	NTD/JPY	\$ 24,614	0.277	\$ 6,817
	NTD/EUR	\$ 239	34.268	\$ 8,205
	NTD/RMB	\$ 5,847	4.285	\$ 25,051
<b>December 31, 2019</b>				
<b>Currency unit</b>	<b>Amount in foreign currency (thousand dollars)</b>	<b>Applicable foreign exchange rate, ending (Dollar)</b>	<b>Book value (NTD) (thousand dollars)</b>	
<b>Financial assets</b>	NTD/USD	\$ 32,070	29.966	\$ 961,023
	NTD/JPY	\$ 2,183	0.39736	\$ 867
	NTD/EUR	\$ 2,026	33.524	\$ 67,931
	NTD/RMB	\$ 46,633	4.4294	\$ 206,558
	NTD/KRW	\$ 5,188	0.0262	\$ 135
	NTD/HKD	\$ 11	3.795	\$ 41
	NTD/SGD	\$ 18	22.155	\$ 406
	NTD/MYR	\$ 18	7.033	\$ 126
	NTD/THB	\$ 2	0.9752	\$ 2
	NTD/CHF	\$ 1	30.72	\$ 41
	NTD/GBP	\$ 112	39.37872	\$ 4,435
	NTD/INR	\$ 9	0.4164	\$ 4

	NTD/PHP	\$ 90	0.5847	\$ 53
<b>Financial liabilities</b>	NTD/USD	\$ 6,153	30.589	\$ 188,232
	NTD/JPY	\$ 24,880	0.2782	\$ 6,920
	NTD/EUR	\$ 778	33.805	\$ 26,312
	NTD/RMB	\$ 2,007	4.417	\$ 8,865
	NTD/GBP	\$ 5	39.58	\$ 207

<b>September 30, 2019</b>				
	<b>Currency unit</b>	<b>Amount in foreign currency (thousand dollars)</b>	<b>Applicable foreign exchange rate, ending (Dollar)</b>	<b>Book value (NTD) (thousand dollars)</b>
<b>Financial assets</b>	NTD/USD	\$ 8,340	31.109	\$ 259,445
	NTD/JPY	\$ 1,301	0.28546	\$ 371
	NTD/EUR	\$ 1,419	33.872	\$ 48,052
	NTD/RMB	\$ 11,355	4.4396	\$ 50,413
	NTD/KRW	\$ 3,568	0.0261	\$ 93
	NTD/HKD	\$ 15	3.904	\$ 58
	NTD/MYR	\$ 13	7.122	\$ 94
	NTD/SGD	\$ 19	22.345	\$ 423
	NTD/THB	\$ 3	0.9859	\$ 3
	NTD/CHF	\$ 1	31.06	\$ 42
	NTD/PHP	\$ 78	0.5917	\$ 46
	NTD/GBP	\$ 94	38.19297	\$ 3,607
<b>Financial liabilities</b>	NTD/USD	\$ 5,137	31.486	\$ 161,756
	NTD/JPY	\$ 9,646	0.2898	\$ 2,796
	NTD/EUR	\$ 488	34.146	\$ 16,677
	NTD/RMB	\$ 1	4.488	\$ 3
	NTD/GBP	\$ 1	38.41	\$ 52

In consideration of the Group's multiple functional currency types, the information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) was NT\$(30,276) thousand and NT\$9,407 thousand until September 30, 2020 and 2019.

Ⓑ Cash flow and fair value interest rate risk

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

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

Ⓒ Pricing risk

Due to the fact that in the investment held by the Group indicated in the

individual balance sheet, the Group did not hold the financial assets including equity instruments. Therefore, the Group did not suffer significant pricing risk.

Ⓓ Other risks over market value

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

Ⓔ Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on December 31, 2019, September 30, 2020 and 2019 are stated as following:

<b>September 30, 2020</b>		
<b>Primary risk</b>	<b>Range of change</b>	<b>Sensitivity of income</b>
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-32,129 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/-1,573 thousand

<b>December 31, 2019</b>		
<b>Primary risk</b>	<b>Range of change</b>	<b>Sensitivity of income</b>
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-30,345 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/-1,606 thousand

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

(b) Credit risk

Ⓐ Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income.

Ⓑ The group set up the management of credit risk by group perspective. According to the loan policy expressly defined internally in the Group, each business dept. Within the Group shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the

customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers' credit risk, including the unearned accounts receivable and undertaken transactions. The Group also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.

- Ⓒ For the nine-month periods ended September 30, 2020 and 2019, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart's failure to perform contract.
- Ⓓ The Group's Finance Dept. manages the credit risk over the deposits in banks and other financial instruments according to the Group's policy. The Group's trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.
- Ⓔ Guarantee  
According to the Group's policy, the Group may only make financial guarantee for the subsidiaries wholly owned by the Group. Before September 30, 2020, December 31, 2019 and September 30, 2019, the Group has never made any endorsements/guarantees.
- Ⓕ The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:  
If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- Ⓖ The Group in line with credit risk management procedure, when the counterparty of transaction has financial difficulties, business accidents, restrictions on the acceptance of orders due to legal restrictions, refunds of company bills and any factors (such as fires, earthquakes and natural disasters). A default is considered to have occurred in the event that the possibility of recovering the receivable is very low, the default has occurred.
- Ⓗ The Group classifies customer's notes receivable, accounts receivable, contract assets and rents receivable in accordance with geographic area,

product types, credit rating of customer, collaterals, credit risk on trade and customer types. The Group applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

- ① The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- ② The Group used the foreseeable of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the loss allowance of notes receivable and accounts receivable. The group use provision matrix to estimate expected credit loss under the provision matrix basis. The provision matrix basis based on historical default rates observed during the lifetime of accounts receivable to adjust. On each reporting day, the Group updated the observed historical default rates and analyzed changes. On September 30, 2020, December 31, 2019 and September 30, 2019, the group expected credit loss rate during the lifetime is stated as follow:

	<b>Notes Receivable</b>	<b>Accounts Receivable</b>					
	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%

- ③ The Group grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of loss allowance provided for the Group's impairment on receivable accounts and account age analysis on loans, please see Note 6(3) and 6(4).
- (c) Liquidity risk
- ④ The liquidity risk arises when the Group fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Group managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable loss or impairment on the Group's goodwill.
  - ⑤ The Group's will call the management meeting periodically to assist Financial Accounting Dept. Control the need for cash flow and the optimal investment return in cash. Generally, the Group will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding

the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Group's loan totaled NT\$2,605,040 thousand on September 30, 2020.

- © The following table refers to the non-derivative financial liabilities and grouped subject to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Group did not hold derivative financial liabilities.

Non-derivative financial liabilities	September 30, 2020			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ —	\$ —	\$ —	\$ —
Payable accounts (including related party)	491,606	—	—	491,606
Other payable accounts (including related party)	611,141	—	—	611,141
Lease Liabilities	64,851	64,885	—	129,736
Long-term loan (including the current portion)	—	—	629,280	629,280
Corporate bonds payable	199,983	—	—	199,983
<b>Total</b>	<b>\$ 1,367,581</b>	<b>\$ 64,885</b>	<b>\$ 629,280</b>	<b>\$ 2,061,746</b>

Non-derivative financial liabilities	December 31, 2019			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ 500,000	\$ —	\$ —	\$ 500,000
Payable accounts (including related party)	392,767	—	—	392,767
Other payable accounts (including related party)	774,554	—	—	774,554
Lease liabilities	84,235	67,752	—	151,987
Long-term loan (including the current portion)	—	—	142,208	142,208
Corporate bonds payable	—	—	902,485	902,485
<b>Total</b>	<b>\$ 1,751,556</b>	<b>\$ 67,752</b>	<b>\$ 1,044,693</b>	<b>\$ 2,864,001</b>

Non-derivative financial liabilities	September 30, 2019			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ 700,000	\$ —	\$ —	\$ 700,000
Payable accounts (including related party)	367,406	—	—	367,406
Other payable accounts (including related party)	565,707	—	—	565,707
Lease Liabilities	77,283	75,230	—	152,513
Long-term loan (including the current portion)	—	—	—	—
Corporate bonds payable	—	—	901,497	901,497
<b>Total</b>	<b>\$ 1,710,396</b>	<b>\$ 75,230</b>	<b>\$ 901,497</b>	<b>\$ 2,687,123</b>

## (2) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair

value of financial and non-financial instruments have been defined as follows:

- Ⓐ Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Ⓑ Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in corporate bonds is included in Level 2.
- Ⓒ Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

- Ⓐ Except for those listed in the table below, the carrying amounts of cash and cash equivalents, financial assets at amortized cost—current, notes receivable, accounts receivable, other receivables, pledged deposit, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

	<b>September 30, 2020</b>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets	—	—	—	—
Financial liabilities				
Bonds payable (including current portion)	\$ 199,983	—	\$ 199,983	—

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

	<b>September 30, 2019</b>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets	—	—	—	—
Financial liabilities				
Bonds payable (including current portion)	\$ 901,497	—	\$ 901,497	—

- Ⓑ The methods and assumptions of fair value estimate are as follows:

Corporate bond payable: The cash flow expected to be paid is measured by the present value discounted of the market interest rate on the balance sheet date.

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

liabilities are as follows:

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

	<b>September 30, 2020</b>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
<u>Recurring fair value measurements</u>	—	—	—	—
Financial assets at fair value through profit or loss— current convertible bonds option	\$ 1,637	—	\$ 1,637	—
<u>Non-recurring fair value measurements</u>	—	—	—	—
<b>Liabilities</b>				
<u>Recurring fair value measurements</u>	—	—	—	—
	<b>December 31, 2019</b>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
<u>Recurring fair value measurements</u>	—	—	—	—
<u>Non-recurring fair value measurements</u>	—	—	—	—
<b>Liabilities</b>				
<u>Recurring fair value measurements</u>	—	—	—	—
Financial liabilities at fair value through profit or loss— non-current convertible bonds option	\$ 384	—	\$ 384	—
	<b>September 30, 2019</b>			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
<u>Recurring fair value measurements</u>	—	—	—	—
<u>Non-recurring fair value measurements</u>	—	—	—	—
<b>Liabilities</b>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss— non-current convertible bonds option	\$ 4,330	—	\$ 4,330	—

- Ⓑ 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 nine months ended September 30, 2020 and 2019.

### 13. Disclosures of Notes

#### (1) Information about important transactions

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

No.	Contents	January ~ September 2020
1	Loans to others	N/A
2	Endorsement/guarantees made for others	N/A
3	Marketable securities-ending	N/A
4	Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital in the current period.	N/A
5	Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
6	Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
7	Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital.	N/A
8	Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital.	N/A
9	Transactions of derivative instruments.	N/A
10	Business relationship and important transactions between parent company and subsidiaries.	Attached table 1

Attached table 1 : Business relationship and important transactions between parent company and subsidiaries

#### a. For the nine months ended September 30, 2020

No. (Note 1)	Trader	Trading counterpart	Affiliation with trader (Note 2)	Status of transaction			
				Title	Amount	Trading terms and conditions	To consolidated operating revenue or total assets (Note 3)
0	MPI Corporation	Chain-Logic International Corp.	1	Sales revenue	\$ 32,363	Note 4	1%
				Receivable accounts	\$ 45,585	Note 6	1%
				Advance sale receipts	\$ 66,886	Note 4	1%
				Other receivable accounts	\$ 1,057	Note 8	-
				Rent revenue	\$ 2,894	Note 7	-
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sales revenue	\$ 9,464	Note 4	-
				Receivable accounts	\$ 9,013	Note 6	-
				Other receivable accounts	\$ 12,195	Note 8	-
				Other gains	\$ 12,206	Note 4	-

0	MPI Corporation	MPI AMERICA INC.	1	Sales revenue	\$ 383,744	Note 4	9%
				Receivable accounts	\$ 350,715	Note 6	4%
				Advance sale receipts	\$ 18,891	Note 4	-
				Others gains	\$ 3,602	Note 4	-
				Temporary receipts	\$ 1,368	Note 6	-
0	MPI Corporation	MPI (SUZHOU) CORPORATION	1	Sales revenue	\$ 246,832	Note 4	6%
				Receivable accounts	\$ 354,989	Note 6	4%
				Other receivable accounts	\$ 16,957	Note 8	-
				Other gains	\$ 15,257	Note 4	-
1	Chain-Logic International Corp.	MPI Corporation	2	Sales revenue	\$ 8,652	Note 4	-
				Receivable accounts	\$ 3,484	Note 6	-
				Revenue from commission	\$ 29,435	Note 5	1%
				Receivable Commission	\$ 13,726	Note 6	-
				Other receivable accounts	\$ 132	Note 8	-
				Other gains	\$ 1,488	Note 4	-
1	Chain-Logic International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 1,211	Note 4	-
				Receivable accounts	\$ 893	Note 6	-
1	Chain-Logic International Corp.	MPI (SUZHOU) CORPORATION	3	Sale revenue	\$ 6,721	Note 4	-
				Advance sale receipts	\$ 419	Note 4	-
				Receivable accounts	\$ 1,731	Note 6	-
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 1,631	Note 5	-
				Receivable Commission	\$ 662	Note 6	-
2	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sales revenue	\$ 3,524	Note 4	-
				Receivable accounts	\$ 587	Note 6	-
2	MEGTAS CO.,LTD.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 1,469	Note 4	-
				Receivable accounts	\$ 608	Note 6	-
3	MPI (SUZHOU) CORPORATION	MPI Corporation	2	Revenue from commission	\$ 13,819	Note 5	-
				Receivable Commission	\$ 29	Note 6	-
3	MPI (SUZHOU) CORPORATION	Chain-Logic International Corp.	3	Sales revenue	\$ 819	Note 4	-
				Receivable accounts	\$ 12	Note 6	-
4	MPI AMERICA INC.	MPI Corporation	2	Sales revenue	\$ 253	Note 4	-
				Receivable accounts	\$ 249	Note 6	-
5	Lumitek (Changchou) Co. Ltd.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 302	Note 4	-
				Receivable accounts	\$ 300	Note 6	-
				Other receivable accounts	\$ 839	Note 8	-

b. For the nine months ended September 30, 2019

No. (Note 1)	Trader	Trading counterpart	Affiliation with trader (Note 2)	Status of transaction			
				Title	Amount	Trading terms and conditions	To consolidated operating revenue or total assets (Note 3)
0	MPI Corporation	Chain-Logic International Corp.	1	Sales revenue	\$ 37,337	Note 4	1%
				Receivable accounts	\$ 17,192	Note 6	-
				Advance sale receipts	\$ 8,518	Note 4	-
				Other receivable accounts	\$ 1,082	Note 8	-
				Rent revenue	\$ 2,885	Note 7	-
				Other gains (losses)	\$ 455	Note 4	-
				Administrative and general expenses – other expenses, less	\$ 11	Note 7	-
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sales revenue	\$ 1,455	Note 4	-
				Receivable accounts	\$ 40,832	Note 6	1%
				Other gains (losses)	\$ 12,144	Note 4	-
				Other receivable accounts	\$ 11,981	Note 8	-
0	MPI Corporation	MPI AMERICA INC.	1	Sales revenue	\$ 329,681	Note 4	8%
				Receivable accounts	\$ 287,840	Note 6	4%
				Advance sale receipts	\$ 34,509	Note 4	-
				Others gains (losses)	\$ 4,423	Note 4	-
0	MPI Corporation	MPI (SUZHOU) CORPORATION	1	Sales revenue	\$ 141,529	Note 4	4%
				Receivable accounts	\$ 165,182	Note 6	2%
				Other receivable accounts	\$ 41,784	Note 8	1%
				Other gains (losses)	\$ 16,791	Note 4	-
1	Chain-Logic International Corp.	MPI Corporation	2	Sales revenue	\$ 9,271	Note 4	-
				Receivable accounts	\$ 8,028	Note 6	-
				Revenue from commission	\$ 44,192	Note 5	1%
				Receivable Commission	\$ 68,884	Note 6	1%
				Other receivable accounts	\$ 119	Note 8	-
				Other gains (losses)	\$ 227	Note 4	-

1	Chain-Logic International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 185	Note 4	-
				Receivable accounts	\$ 59	Note 6	-
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 2,014	Note 5	-
				Receivable Commission	\$ 694	Note 6	-
1	Chain-Logic International Corp.	MPI (SUZHOU) CORPORATION	3	Sale revenue	\$ 7,506	Note 4	-
				Advance sale receipts	\$ 532	Note 4	-
				Receivable accounts	\$ 9,839	Note 6	-
1	Chain-Logic International Corp.	MPI AMERICA INC.	3	Sale revenue	\$ 11	Note 4	-
2	MEGTAS CO.,LTD.	MPI Corporation	2	Sale revenue	\$ 120	Note 4	-
2	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sales revenue	\$ 1,961	Note 4	-
				Receivable accounts	\$ 778	Note 6	-
2	MEGTAS CO.,LTD.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 1,845	Note 4	-
				Receivable accounts	\$ 1,598	Note 6	-
3	MPI (SUZHOU) CORPORATION	MPI Corporation	2	Sales revenue	\$ 17,918	Note 4	-
				Receivable accounts	\$ 11,754	Note 6	-
				Revenue from commission	\$ 9,679	Note 5	-
				Receivable Commission	\$ 865	Note 6	-
3	MPI (SUZHOU) CORPORATION	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sales revenue	\$ 8,576	Note 4	-
3	MPI (SUZHOU) CORPORATION	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$ 48	Note 4	-
				Receivable accounts	\$ 54	Note 6	-
4	MPI AMERICA INC.	MPI Corporation	2	Sales revenue	\$ 242	Note 4	-
5	Lumitek (Changchou) Co. Ltd.	MPI (SUZHOU) CORPORATION	3	Sales revenue	\$ 109	Note 4	-
				Receivable accounts	\$ 355	Note 6	-
				Other receivable accounts	\$ 365	Note 8	-

Note 1: Transactions between parent company and its subsidiaries are numbered as follows:

- (1) "0" for parent company.
- (2) Each subsidiary is numbered in sequential order starting from 1.

Note 2: Related-party transactions are divided into the three categories as follows (If it refers to the same transaction between parent company and subsidiary or subsidiary and subsidiary, the transaction is not required to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between it and its subsidiary, the subsidiary is not required to disclose the same transaction again. If either of the subsidiaries which trade with each other has disclosed the transaction, the other subsidiary is not required to disclose the same transaction again.)

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: For assets and liabilities, the proportion to the consolidated total income or total assets is shown as the Ratio of Shareholding to the consolidated total assets for the period ended on Sep 30. For income, it shall be shown as a Ratio of Shareholding to the consolidated Total incomes for the period ended on Sep 30.

Note 4: Processed under the general trading conditions and price.

Note 5: Based on the price agreed by both parties.

Note 6: O/A 30~180 days, same as that applicable to the general customers or suppliers.

Note 7: Based on the rent agreed by both parties.

Note 8: Out-of-pocket expenses of the general expenditure.

## (2) Information about investees

The information about name, territory, business lines, original investment amount, shares held at ending, income and investment income recognized in the current period of the investees in which the Group may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) for the nine months ended September 30, 2020 is stated as following:

Investor	Investee	Territory	Business lines	Original investment amount		Held at ending			Investee income(losses) recognized in current period (Note 1)	Investment income(losses) 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%	\$ 59,311	\$ 407	\$ 407	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	100%	\$ 531,177	\$ 37,151	\$ 38,485	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%	\$ 34,526	\$ (651)	\$ (494)	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%	\$ 212,273	\$ 26,779	\$ 26,912	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%	\$ 1,545	\$ (32)	\$ (32)	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%	\$ (158,918)	\$ (36,474)	\$ (36,674)	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	\$ 3,724 (Note 4)	\$ 12,687 (Note 4)	100	100%	\$ 7,736	\$ (51)	—	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%	\$ (147,825)	\$ (36,598)	—	Subsidiary of MPA TRADING CORP.

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

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

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

Note 4: The subsidiary of the Group – CHAIN-LOGIC TRADING CORP. has reduced the cash capital US\$1,100,000 (equivalent to NT\$34,234 thousand) in July 2019 and US\$300,000 (equivalent to NT\$8,963 thousand) in January 2020. So far, the Group has invested a total of US\$100 in the subsidiary, CHAIN-LOGIC TRADING CORP., totaling 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(losses) 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 300,000 (\$ 12,683)	—	USD 300,000 (\$ 12,683)	—	—	—	—	—	\$ 15,852
Lumitek (Changzhou) Co. Ltd.	R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and	USD 16,000,000 (\$ 502,470)	(Note 2)	USD 16,000,000 (\$ 502,470)	—	—	USD 16,000,000 (\$ 502,470)	\$ 2,260	100 %	\$ 2,260	\$ 470,578	—

	new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.											
MPI (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 USD 3,000,000 (\$ 90,270)	(Note 2)	USD 2,000,000 (\$60,180)	—	—	USD 2,000,000 (\$60,180)	\$ 35,276	100 %	\$ 35,276	\$ 65,810	—

Note 1: Reinvest the company in Mainland China via the offshore subsidiary, CHAIN-LOGIC TRADING CORP.

Note 2: Reinvest the company in Mainland China via the offshore subsidiary, MMI HOLDING CO., LTD.

Note 3: Except the financial statement of Lumitek (Changchou) Co. Ltd, which was reviewed by company's external auditors, the investment income not recognized based on the financial statements reviewed by the parent company's external auditors was recognized under the equity method.

Note 4 : Our company presented a discussion to the board of directors that they decided 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, and the payment will be transferred to CHAIN-LOGIC TRADING CORP. account on June 28, 2019.

Note 5: The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. was liquidated and written down in November, 2019. Part of the liquidation amount of US\$300,000 (equivalent to NT\$8,963 thousand) has remitted to Chain-Logic International Corp. by CHAIN-LOGIC TRADING CORP. in January, 2020 and was used to deduct the accumulated amount of investment in Mainland

China. The Investment been approved by Commission on MOEA put on record on 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 18,000,000 (NTD 562,650)	USD 19,410,272.42 (NTD 611,455)	NTD 3,270,806

Note 1: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

Note 2: (a) Investment amount approved by the Investment LEDA-ONE (Shenzhen) Co. was liquidated and Written off in May 2017 and remitted the surplus investment US\$155,857.58 (equivalent to NT\$4,677 thousand) to offset the investment amount approved by the MOEA. The original investment amount at US\$1,800,000(equivalent to NT\$54,111 thousand) is still in total of US\$1,644,142.42(equivalent to NT\$49,434 thousand) that could not be offset the investment amount.

(b) MJC Microelectronics (Kunshan) Co., Ltd. was transferred to Japanese MJC Corporation in March, 2018, and the transfer amount of USD2,857,000 (equivalent to NT\$84,006 thousand) was used to deduct the mainland investment quota in April, 2018.

(c) MJC Microelectronics (Shanghai) Co., Ltd. was liquidated in August, 2018, and in September, 2018, the liquidation amount of US\$936,870 (equivalent to NT\$28,669 thousand) was used to deduct the accumulated amount of investment in Mainland China.

(d) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. has passed the reduction of cash capital US\$1,100,000 (equivalent to NT\$34,234 thousand) by the Board of Directors meeting, and the amount of cash capital reduction has remitted to CHAIN-LOGIC TRADING CORP. in July, 2019. The amount was used to deduct the accumulated amount of investment in Mainland China.

(e) The subsidiary of the Group – CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP. was liquidated and written down in November, 2019. Part of the liquidation amount of US\$300,000 (equivalent to NT\$8,963 thousand) has remitted to Chain-Logic International Corp. by CHAIN-LOGIC TRADING CORP. in January, 2020 and was used to deduct the accumulated amount of investment in Mainland China. The Investment been approved by Commission on MOEA put on record on February 27, 2020.

C. Important transactions:

For the important transactions of the Group with the investees in Mainland China, direct or indirect, for the nine months ended September 30, 2020 (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”.

(4) Information of major shareholders

Name of major shareholders	Shares	Total Shares Owned	Ownership Percentage
MPI Investment Corporation		8,334,626	9.15%

Note1: The table is based on the information provided by the Taiwan Depository & Clearing Corporation for stockholders holding greater than 5% of MPI Corporation stocks completed the process of registration and book-entry delivery in dematerialized form on the last business date of current quarter. There may be a discrepancy in the number of shares recorded on the Company’s consolidated financial statements and its dematerialized securities arising from the difference in basis of preparation.

Note2: As table above, the shareholder who delivers the shares to the trust is disclosed by the individual trustee who opened the trust account. In accordance with the Securities Exchange Act, the shareholders have to disclose the insider equity more than 10% of the shares, include their own shares and their delivery to the trust and have the right to make decision on trust property. Information on insider equity declaration is available on the Market Observation Post System website.

Note3: The principle of this table is based on the list of securities owners at the book closure date announced by the interim shareholders meeting without margin trading-short.

Note4: Ratio of holding shares (%) = total number of shares holding by the shareholder / total number of shares delivered in dematerialized form

Note5: The total number of common stock and preferred stock delivered in dematerialized form (including treasury stock) were 91,068,350 shares = 91,068,350 (common stock) + 0 (preferred stock).

#### **14. Information by department**

(1) General information

The Group primarily engages in manufacturing, processing, maintenance, import/export

and trading of semi-conductor production process and testing equipments.

- (2) To report the information about department income, assets and liabilities, and basis of measurement and reconciliation

The department income, department assets and department liabilities are consistent with those identified in the financial statements. Please see the balance sheet and comprehensive income statement.

- (3) By product and labor service:

The Group engages in a single industry. Its revenue from customers is primarily generated from the sale of semi-conductor production process and testing equipment.