

**THINFLEX CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2019 AND 2018**

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Representation Letter

In connection with the Consolidated Financial Statements of Affiliated Enterprises of THINFLEX CORPORATION (the “Consolidated FS of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates as of and for the year ended December 31, 2019 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of THINFLEX CORPORATION and its subsidiaries (the “Consolidated FS of the Group”) in accordance with International Financial Reporting Standard 10. In addition, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, THINFLEX CORPORATION does not prepare a separate set of Consolidated FS of Affiliates.

Very truly yours,

THINFLEX CORPORATION

By

HUANG, CHIA-NENG

March 11, 2020

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of ThinFlex Corporation

Opinion

We have audited the accompanying consolidated balance sheets of ThinFlex Corporation and subsidiaries (the “Group”) as at December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of ThinFlex Corporation as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

The key audit matters in relation to the consolidated financial statements for the year ended December 31, 2019 are outlined as follows:

Accuracy of timing on sales revenue recognition

Description

Please refer to Note 4(27) for accounting policy on revenue recognition.

Mainland China is the Group's major sales region. The sales revenue should be recognised when the entity has transferred to the buyer the control of the goods based on the terms of sales orders, contracts or other agreements. As the procedures for revenue recognition involves checking of sales and relevant documents, and those procedures were performed manually, which may cause revenue recognition in inappropriate timing near the end of the reporting period. Thus, we consider the accuracy of timing on sales revenue recognition as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Understood, assessed and tested the internal controls on revenue recognition are reasonable and performed effectively.
2. Performed cutoff tests on sales revenue in a certain period around balance sheet date, including verified customer packing lists, export declaration documents, shipping records of shipping companies or customer receipt records and other relevant documents to confirm the timing of revenue recognition is appropriate in accounting.
3. We performed confirmation of the customers whose ending balance of accounts receivable reaching certain amounts, investigate the reason why the confirmed amounts are not in agreement with the records, if any, and test the adjustments of Thinflex Corporation.

Allowance for inventory valuation losses

Description

Please refer to Note 4(10) for accounting policies on inventory valuation, Note 5 for the uncertainty of estimates and assumptions applied on inventory valuation, and Note 6(3) for details of inventory. As of December 31, 2019, inventories and allowance for inventory valuation losses amounted to NT\$496,050 thousand and NT\$131,405 thousand, respectively.

ThinFlex Corporation is primarily engaged in the manufacture and sale of soft copper foil substrate and back glue paper. Due to rapid technology innovations of these inventories and the fluctuation of market prices, there is a higher risk of inventory losing value or becoming obsolete. ThinFlex Corporation measures inventory at the lower of cost and net realisable value by adopting an item-by-item approach while comparing. As the monetary values of inventories are material, items of inventories are voluminous, and the recognition of obsolete and damaged inventories are subject to subjective judgment, the valuation contains uncertainty. Therefore, we consider the allowance for inventory valuation losses as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Based on our understanding of business and industry of the Group, we assessed the reasonableness of its provision policies and procedures of allowance for inventory valuation including degree of inventory closeout, reasonableness of obsolete inventory judgement and consistency of estimation accounting methods.
2. Obtained an understanding of the warehouse management process and related internal control procedures as well as inspected the plan and participated in annual inventory taking to control the inventory status and evaluate the management division and the effectiveness of controlling the obsolete inventories.
3. Tested the preparation accuracy of reports used for evaluating inventory valuation losses and the consistency with the Group's related policies; tested the supporting evidences and rationality of net realized value by sample testing individual inventory mark number; and checked the inventory records by sample testing individual inventory mark number to confirm the correctness of the inventory age intervals and the adequacy of allowance for inventory valuation loss.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of ThinFlex Corporation, with other matter section, as at and for the years ended December 31, 2019 and 2018.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Wang, Kuo-Hua

Liao, A-Shen

For and on behalf of PricewaterhouseCoopers, Taiwan

March 11, 2020

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

THINFLEX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Assets	Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 468,264	13	\$ 424,164	12
1150	Notes receivable, net	6(2) and 8	473,060	13	387,473	11
1170	Accounts receivable, net	6(2) and 7	1,300,758	35	1,157,443	33
1200	Other receivables		4,903	-	3,730	-
130X	Inventories	6(3)	364,645	10	521,370	15
1410	Prepayments		20,642	-	22,649	1
11XX	Current Assets		<u>2,632,272</u>	<u>71</u>	<u>2,516,829</u>	<u>72</u>
Non-current assets						
1600	Property, plant and equipment	6(4) and 8	769,193	21	686,779	20
1755	Right-of-use assets	6(5) and 8	102,217	3	-	-
1780	Intangible assets		13,679	1	6,176	-
1840	Deferred income tax assets	6(21)	38,170	1	22,650	1
1915	Prepayments for business facilities		87,537	2	178,960	5
1920	Guarantee deposits paid		8,455	-	9,057	-
1985	Long-term prepaid rents	6(6) and 8	-	-	11,936	1
1990	Other non-current assets, others	6(7) and 8	38,576	1	42,670	1
15XX	Non-current assets		<u>1,057,827</u>	<u>29</u>	<u>958,228</u>	<u>28</u>
1XXX	Total assets		<u>\$ 3,690,099</u>	<u>100</u>	<u>\$ 3,475,057</u>	<u>100</u>

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THINFLEX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Liabilities and Equity	Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(8) and 8	\$ 935,770	25	\$ 1,024,688	29
2170	Accounts payable		293,116	8	195,354	6
2180	Accounts payable - related parties	7	198,818	5	211,894	6
2200	Other payables	6(7)(9)	180,992	5	225,928	6
2230	Current income tax liabilities		34,322	1	33,263	1
2250	Provisions for liabilities - current	6(10)	19,900	1	19,993	1
2280	Current lease liabilities	3(1) and 6(5)	8,538	-	-	-
2399	Other current liabilities, others		1,284	-	901	-
21XX	Current Liabilities		<u>1,672,740</u>	<u>45</u>	<u>1,712,021</u>	<u>49</u>
	Non-current liabilities					
2540	Long-term borrowings	6(11) and 8	427,450	12	280,000	8
2580	Non-current lease liabilities	3(1) and 6(5)	83,081	2	-	-
2600	Other non-current liabilities	6(7)	-	-	3,234	-
25XX	Non-current liabilities		<u>510,531</u>	<u>14</u>	<u>283,234</u>	<u>8</u>
2XXX	Total Liabilities		<u>2,183,271</u>	<u>59</u>	<u>1,995,255</u>	<u>57</u>
	Equity attributable to owners of parent					
	Share capital					
3110	Share capital - common stock	6(13)	1,006,378	27	1,006,378	29
	Retained earnings					
3310	Legal reserve		113,033	3	96,570	3
3320	Special reserve		24,120	1	14,294	1
3350	Unappropriated retained earnings		400,461	11	386,680	11
3400	Other equity interest		(37,164)	(1)	(24,120)	(1)
31XX	Equity attributable to owners of the parent		<u>1,506,828</u>	<u>41</u>	<u>1,479,802</u>	<u>43</u>
3XXX	Total equity		<u>1,506,828</u>	<u>41</u>	<u>1,479,802</u>	<u>43</u>
	Significant contingent liabilities and unrecognised contract commitments					
	Significant events after the balance sheet date					
3X2X	Total liabilities and equity		<u>\$ 3,690,099</u>	<u>100</u>	<u>\$ 3,475,057</u>	<u>100</u>

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

THINFLEX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31			
		2019		2018	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(15) and 7	\$ 2,909,414	100	\$ 2,616,963	100
5000 Operating costs	6(3)(19)(20) and 7	(2,470,912)	(85)	(2,150,126)	(82)
5950 Net operating margin		<u>438,502</u>	<u>15</u>	<u>466,837</u>	<u>18</u>
Operating expenses	6(6)(19)(20) and 7				
6100 Selling expenses		(60,674)	(2)	(85,974)	(3)
6200 General and administrative expenses		(103,765)	(4)	(98,874)	(4)
6300 Research and development expenses		(59,651)	(2)	(62,258)	(3)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)	(1,442)	-	(3,591)	-
6000 Total operating expenses		(225,532)	(8)	(250,697)	(10)
6900 Operating profit		<u>212,970</u>	<u>7</u>	<u>216,140</u>	<u>8</u>
Non-operating income and expenses					
7010 Other income	6(16)	13,136	1	10,759	1
7020 Other gains and losses	6(17)	(37,580)	(1)	(8,967)	-
7050 Finance costs	6(18)	(21,650)	(1)	(17,608)	(1)
7000 Total non-operating income and expenses		(46,094)	(1)	(15,816)	-
7900 Profit before income tax		166,876	6	200,324	8
7950 Income tax expense	6(21)	(26,168)	(1)	(35,691)	(2)
8200 Profit for the year		<u>\$ 140,708</u>	<u>5</u>	<u>\$ 164,633</u>	<u>6</u>
Other comprehensive income					
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations		(\$ 13,044)	(1)	(\$ 9,826)	-
8500 Total comprehensive income for the year		<u>\$ 127,664</u>	<u>4</u>	<u>\$ 154,807</u>	<u>6</u>
Profit, attributable to:					
8610 Owners of the parent		<u>\$ 140,708</u>	<u>5</u>	<u>\$ 164,633</u>	<u>6</u>
Comprehensive income attributable to					
8710 Owners of the parent		<u>\$ 127,664</u>	<u>4</u>	<u>\$ 154,807</u>	<u>6</u>
Basic earnings per share					
9750 Total basic earnings per share	6(22)	<u>\$</u>	<u>1.40</u>	<u>\$</u>	<u>1.64</u>
Diluted earnings per share					
9850 Total diluted earnings per share	6(22)	<u>\$</u>	<u>1.39</u>	<u>\$</u>	<u>1.62</u>

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

THINFLEX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of the parent						Total equity
	Notes	Share capital - common stock	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	
<u>Year ended December 31, 2018</u>							
Balance at January 1, 2018		\$ 1,006,378	\$ 79,215	\$ 8,838	\$ 355,560	(\$ 14,294)	\$ 1,435,697
Profit for the year		-	-	-	164,633	-	164,633
Other comprehensive loss for the year		-	-	-	-	(9,826)	(9,826)
Total comprehensive income (loss) for the year		-	-	-	164,633	(9,826)	154,807
Appropriation and distribution of 2017 retained earnings:							
Lease reserve appropriated		-	17,355	-	(17,355)	-	-
Special reserve appropriated		-	-	5,456	(5,456)	-	-
Cash dividends paid	6(14)	-	-	-	(110,702)	-	(110,702)
Balance at December 31, 2018		\$ 1,006,378	\$ 96,570	\$ 14,294	\$ 386,680	(\$ 24,120)	\$ 1,479,802
<u>Year ended December 31, 2019</u>							
Balance at January 1, 2019		\$ 1,006,378	\$ 96,570	\$ 14,294	\$ 386,680	(\$ 24,120)	\$ 1,479,802
Profit for the year		-	-	-	140,708	-	140,708
Other comprehensive loss for the year		-	-	-	-	(13,044)	(13,044)
Total comprehensive income (loss) for the year		-	-	-	140,708	(13,044)	127,664
Appropriation and distribution of 2018 retained earnings:							
Lease reserve appropriated		-	16,463	-	(16,463)	-	-
Special reserve appropriated		-	-	9,826	(9,826)	-	-
Cash dividends paid	6(14)	-	-	-	(100,638)	-	(100,638)
Balance at December 31, 2019		\$ 1,006,378	\$ 113,033	\$ 24,120	\$ 400,461	(\$ 37,164)	\$ 1,506,828

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

THINFLEX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 166,876	\$ 200,324
Adjustments			
Adjustments to reconcile profit (loss)			
Write-off of uncollectible accounts	12(2)	1,442	3,591
Depreciation expense - property, plant and equipment	6(4)(19)	153,853	157,201
Depreciation expense - right-of-use assets	6(5)(19)	8,196	-
Rent expense - long-term prepaid rents	6(6)	-	330
Depreciation expense - other non-current assets, others		2,511	2,511
Amortization expense	6(19)	3,175	1,558
Interest income	6(16)	(5,957)	(3,383)
Loss on disposal property, plant and equipment	6(17)	399	690
Interest expense	6(18)	21,650	17,608
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(100,481)	(29,649)
Accounts receivable		(168,590)	(32,005)
Accounts receivable - related parties		242	(731)
Other receivables		(1,333)	3,760
Inventories		148,852	(115,386)
Prepayments		1,297	5,438
Other current assets - other		-	21
Changes in operating liabilities			
Accounts payable		99,171	(45,179)
Accounts payable - related parties		(13,077)	11,149
Other payables		(17,064)	6,667
Other payables - related parties		180	-
Provisions for liabilities - current		177	(929)
Other current liabilities - other		384	(110)
Cash inflow generated from operations		301,903	183,476
Interest received		5,961	3,381
Interest paid		(22,703)	(12,870)
Income tax paid		(40,657)	(29,417)
Net cash flows from operating activities		<u>244,504</u>	<u>144,570</u>

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THINFLEX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other financial assets - current		\$ -	\$ 5,945
Acquisition of property, plant and equipment	6(24)	(163,937)	(206,578)
Increase in prepayments for business facilities		(5,374)	(189,913)
Proceeds from disposal of property, plant and equipment		110	224
Acquisition of intangible assets		(10,761)	(4,480)
Decrease in refundable deposits		505	2,280
Acquisition of solar energy equipment	6(24)	(5,335)	(5,499)
Decrease in other non-current assets - others		1,548	2,118
Net cash flows used in investing activities		(183,244)	(395,903)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term debt	6(25)	1,079,442	2,495,326
Repayments of short-term debt	6(25)	(1,159,184)	(2,098,739)
Proceeds from long-term debt	6(25)	247,450	210,000
Repayments of long-term debt	6(25)	(100,000)	(90,000)
Payments of lease liabilities	6(5)(25)	(7,309)	-
Cash dividends paid	6(14)	(100,638)	(110,702)
Net cash flows (used in) from financing activities		(40,239)	405,885
Effect of exchange rate changes on cash and cash equivalents		23,079	13,426
Net increase in cash and cash equivalents		44,100	167,978
Cash and cash equivalents at beginning of year	6(1)	424,164	256,186
Cash and cash equivalents at end of year	6(1)	\$ 468,264	\$ 424,164

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

THINFLEX CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

- (1) ThinFlex Corporation (the “Company”) was incorporated as a Company on June 2, 2000. The Company is primarily engaged in manufacturing, wholesaling and retailing of electronic components, synthetic resin, precision chemical material and rubber.
- (2) The main activities of the Company and its subsidiaries (collectively referred herein as the “Group”) are provided in Note 4(3).
- (3) On December 24, 2004, the Group’s common stock was officially listed on the Taipei Exchange.
- (4) As of December 31, 2019, Arisawa Manufacturing Co., Ltd. holds 52.30% equity interest of the Group and becomes the Group’s ultimate parent company.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 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 (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

A. IFRS 16, 'Leases'

- (a) IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- (b) The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by \$110,864, increased 'lease liability' by \$98,928 and decreased long-term prepaid rents by \$11,936 with respect to the lease contracts of lessees on January 1, 2019.
- (c) The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
 - i. Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - ii. The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - iii. The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
 - iv. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- (d) The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 1.29%.
- (e) The Group recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The amount of aforementioned present values is the same as the amount of lease liabilities recognised on January 1, 2019.

B. Annual improvements to IFRSs 2015-2017 cycle

Amendments to IAS 12, 'Income taxes'

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform'	January 1, 2020

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

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 1, 'Classification of liabilities as current or noncurrent'	January 1, 2022

Except for the following, the above standards and interpretations have no significant 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.

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

The amendments clarify that classification of liabilities depends on the rights that exist at the end of the reporting period. An entity shall classify a liability as current when it does not have a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. Also, the amendments define 'settlement' as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

- A. The consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
 - (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
 - (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
 - (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
 - (d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)	
			December 31, 2019	December 31, 2018
ThinFlex Corporation	ThinFlex Technology Corp.	Invested in other areas	100	100
ThinFlex Technology Corp.	TopFlex Corporation	Material cutting, test and manufacture and sales of packaging of flexible printed circuit	100	100

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the consolidated operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, nonmonetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- iii. All resulting exchange differences are recognised in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is an associate or joint arrangement, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) 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.

(8) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises 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 recognises the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(10) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each fiscal year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	2~30 years
Machinery and equipment	1~10 years
Transportation equipment	3 ~ 6 years
Office equipment	2~10 years
Instruments and equipment	1~10 years
Other assets	2~10 years

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

Effective 2019

- A. Leases are recognised 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 recognised 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 fixed payments, less any lease incentives receivable. 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 amount of the initial measurement of lease liability. The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(13) Leases(lessor)

Prior to 2018

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

(14) Intangible assets

Intangible assets are computer software stated at cost and amortised on a straight-line basis over their estimated useful life of 3 to 5 years.

(15) Long-term prepaid rents

Prior to 2018

Long-term prepaid rent was a consideration paid to the local government in Mainland China for acquiring a specific land use right, and the depreciation of this specific land use right would be provided on a straight-line basis over the land's estimated useful lives of 50 years.

(16) Other assets

Other assets are solar energy equipment (shown as 'Other non-current assets, others'), the basis of recognition is the discounted value of instalment amount, amortised on a straight-line basis over their estimated useful life of 20 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Borrowings

A. Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised 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.

B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(19) 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.

(20) Derecognition of financial liabilities

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

(21) Provisions

Provisions (contingent liabilities or warranties) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(22) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's 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 recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(23) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(24) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred 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 realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(25) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(26) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are resolved by the Group's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(27) Revenue recognition

A. The Group manufactures and sells a range of soft copper foil substrate and back glue paper related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer'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 customer, and either the customer 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. Sales revenue is recognised based on the contract price specified in the contract, net of the value-added tax, sales returns, volume discounts and sales discounts. The contract does not include a significant financing component because the collection term is deemed present as the sales are made with average credit term of T/T 30~165 days, which is consistent with market practice.

C. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

D. A receivable is recognised 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.

(28) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

In the preparation of these consolidated financial statements, the Group makes critical judgements in applying accounting policies and makes critical assumptions and estimates concerning future events. The judgements and estimates are continually evaluated and adjusted based on historical experience and other factors. The accounting estimates are the rational expectations of future events based on the situation of the specific day, estimates may differ from the actual results, such estimates and assumptions have a significant risk of causing material adjustments to the carrying amount of assets and liabilities in next fiscal year, and the related information is addressed below:

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2019, the carrying amount of inventories was \$364,645.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash :		
Cash on hand and petty cash	\$ 799	\$ 258
Checking accounts and demand deposits	426,033	369,264
	<u>426,832</u>	<u>369,522</u>
Cash equivalents :		
Time deposits(within 3 months)	41,432	54,642
	<u>\$ 468,264</u>	<u>\$ 424,164</u>

- A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Group has no cash and cash equivalents pledged to others as of December 31, 2019 and 2018.
- C. The period of these time deposits are less than 3 months and are not pledged to others. Therefore, they are classified as cash equivalents.

(2) Notes and accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable	\$ 479,327	\$ 391,966
Less: Discounted notes receivable	(6,267)	(4,493)
	<u>\$ 473,060</u>	<u>\$ 387,473</u>
Accounts receivable (Note)	\$ 1,302,142	\$ 1,164,060
Less: Loss allowance	(1,384)	(6,617)
	<u>\$ 1,300,758</u>	<u>\$ 1,157,443</u>

Note: It was including accounts receivable due from related parties, please refer to Note 7 for more information.

- A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 1,179,389	\$ 479,327	\$ 1,089,218	\$ 391,966
Past due				
1 to 30 days	118,181	-	69,844	-
31 to 60 days	4,529	-	627	-
61 to 90 days	43	-	441	-
Over 91 days	-	-	3,930	-
	<u>\$ 1,302,142</u>	<u>\$ 479,327</u>	<u>\$ 1,164,060</u>	<u>\$ 391,966</u>

The above ageing analysis was based on past due date.

- B. As of December 31, 2019 and 2018, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to \$1,533,641.
- C. As of December 31, 2019 and 2018, the Group had outstanding discounted notes receivable (classified as bank acceptance bills) amounting to \$20,930 and \$4,493, respectively. The Group has payment obligation when the drawers of the notes refuse to pay for the notes at maturity. In general, the Group does not expect that the drawers of the notes would refuse to pay for the notes at maturity. As of December 31, 2019 and 2018, those discounted notes receivable deducted directly from notes receivable amounted to \$6,267 and \$4,493, respectively, and the liabilities arising on discounted notes receivable were presented as short-term borrowings amounting to \$14,663 and \$0, respectively.

D. As of December 31, 2019 and 2018, the Group's bank acceptances receivable were endorsed and transferred to suppliers in order to settle the equivalent payments in the amount of \$32,628 and \$60,771, respectively, and the derecognised accounts receivable that are not yet mature amounted to \$2,976 and \$60,771. The Group has payment obligation when the drawers or acceptors of the notes refuse to pay for the notes at maturity. However, in general, the Group does not expect that the drawers or acceptors of the notes would refuse to pay for the notes at maturity.

E. The Group has no accounts receivable pledged to others on December 31, 2019 and 2018.

F. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's receivables (including notes receivable) were \$1,773,818 and \$1,544,916, respectively.

G. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(3) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 199,308	(\$ 65,988)	\$ 133,320
Work in progress	121,536	(8,939)	112,597
Finished goods	174,645	(56,478)	118,167
Merchandise	561	-	561
	<u>\$ 496,050</u>	<u>(\$ 131,405)</u>	<u>\$ 364,645</u>
	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 257,614	(\$ 35,890)	\$ 221,724
Work in progress	86,814	(6,704)	80,110
Finished goods	261,434	(43,768)	217,666
Merchandise	1,870	-	1,870
	<u>\$ 607,732</u>	<u>(\$ 86,362)</u>	<u>\$ 521,370</u>

The cost of inventories recognised as expense for the year:

	2019	2018
Cost of goods sold	\$ 2,445,713	\$ 2,156,989
Inventory valuation loss	47,012	22,426
Revenue from sale of scraps	(18,357)	(19,613)
Loss on scrapping inventory	1,568	2,070
Others	(5,024)	(11,746)
	<u>\$ 2,470,912</u>	<u>\$ 2,150,126</u>

(4) Property, plant and equipment

A. Changes in property, plant and equipment during the period are shown as follows:

2019

	Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Instruments and equipment	Other facilities	Unfinished construction	Total
At January 1								
Cost	\$ 477,795	\$ 915,738	\$ 1,456	\$ 13,647	\$ 36,153	\$ 2,417	\$ 120,738	\$ 1,567,944
Accumulated depreciation and impairment	(229,845)	(622,069)	(1,093)	(4,307)	(22,570)	(1,281)	-	(881,165)
	\$ 247,950	\$ 293,669	\$ 363	\$ 9,340	\$ 13,583	\$ 1,136	\$ 120,738	\$ 686,779
Opening net book amount as at January 1	\$ 247,950	\$ 293,669	\$ 363	\$ 9,340	\$ 13,583	\$ 1,136	\$ 120,738	\$ 686,779
Additions	5,980	53,975	167	6,616	245	206	76,796	143,985
Disposals - cost	(11,814)	(32,640)	(567)	(635)	(10,041)	(866)	-	(56,563)
Prepayments for business facilities transferred in	6,739	90,057	-	-	-	-	-	96,796
Reclassifications - cost	147,810	-	-	-	-	-	(147,810)	-
Depreciation charge	(35,836)	(109,154)	(221)	(3,693)	(4,550)	(399)	-	(153,853)
Disposals - accumulated depreciation	11,663	32,209	530	635	9,901	733	-	55,671
Disposals - accumulated impairment	-	306	-	-	24	53	-	383
Net exchange difference	(2,582)	(1,260)	(11)	(76)	(44)	(32)	-	(4,005)
Closing net book amount as at December 31	\$ 369,910	\$ 327,162	\$ 261	\$ 12,187	\$ 9,118	\$ 831	\$ 49,724	\$ 769,193
At December 31								
Cost	\$ 621,604	\$ 1,016,331	\$ 1,022	\$ 19,486	\$ 26,092	\$ 1,697	\$ 49,724	\$ 1,735,956
Accumulated depreciation and impairment	(251,694)	(689,169)	(761)	(7,299)	(16,974)	(866)	-	(966,763)
	\$ 369,910	\$ 327,162	\$ 261	\$ 12,187	\$ 9,118	\$ 831	\$ 49,724	\$ 769,193

2018

	Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Instruments and equipment	Other facilities	Unfinished construction	Total
At January 1								
Cost	\$ 462,618	\$ 827,216	\$ 2,223	\$ 8,860	\$ 31,394	\$ 2,304	\$ -	\$ 1,334,615
Accumulated depreciation and impairment	(217,719)	(552,892)	(1,419)	(3,564)	(18,306)	(1,083)	-	(794,983)
	\$ 244,899	\$ 274,324	\$ 804	\$ 5,296	\$ 13,088	\$ 1,221	\$ -	\$ 539,632
Opening net book amount as at January 1	\$ 244,899	\$ 274,324	\$ 804	\$ 5,296	\$ 13,088	\$ 1,221	\$ -	\$ 539,632
Additions	34,319	67,383	5	6,486	5,405	336	120,738	234,672
Disposals - cost	(20,917)	(39,573)	(749)	(1,667)	(2,260)	(195)	-	(65,361)
Prepayments for business facilities transferred in	4,482	66,676	-	46	1,760	-	-	72,964
Depreciation charge	(33,940)	(113,474)	(332)	(2,438)	(6,614)	(403)	-	(157,201)
Disposals - accumulated depreciation	20,625	38,987	642	1,667	2,235	195	-	64,351
Disposals - accumulated impairment	4	92	-	-	-	-	-	96
Net exchange difference	(1,522)	(746)	(7)	(50)	(31)	(18)	-	(2,374)
Closing net book amount as at December 31	\$ 247,950	\$ 293,669	\$ 363	\$ 9,340	\$ 13,583	\$ 1,136	\$ 120,738	\$ 686,779
At December 31								
Cost	\$ 477,795	\$ 915,738	\$ 1,456	\$ 13,647	\$ 36,153	\$ 2,417	\$ 120,738	\$ 1,567,944
Accumulated depreciation and impairment	(229,845)	(622,069)	(1,093)	(4,307)	(22,570)	(1,281)	-	(881,165)
	\$ 247,950	\$ 293,669	\$ 363	\$ 9,340	\$ 13,583	\$ 1,136	\$ 120,738	\$ 686,779

B. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

	Years ended December 31,	
	2019	2018
Amount capitalised	\$ 2,004	\$ 401
Range of the interest rates for capitalisation	1.00%~1.80%	1.06%~1.80%

C. The significant components of buildings and structures include building engineering, air compressor equipment, electric power project and monitoring system engineering, which are depreciated over 20, 8, 5 and 3 years, respectively.

D. As of December 31, 2019 and 2018, the accumulated impairment balance were \$61,950 and \$64,743, respectively. The related change in amounts were reversed impairment loss due to scrapping and disposing of certain assets.

E. Please refer to Note 8 for further information on property, plant and equipment pledged to others as collateral.

(5) Leasing arrangements – lessee

Effective 2019

A. The Group leases various assets including land (the Company leases the land located in Southern Taiwan Science Park Bureau, and Mainland China subsidiaries acquired certain land use right from the local government of China). Rental contracts are typically made for periods of 12 to 50 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 to sublease or transfer.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	Year ended		
	December 31, 2019	December 31, 2019	January 1, 2019
	Carrying amount	Depreciation charge	Carrying amount
Land	\$ 102,217	\$ 8,196	\$ 110,864

C. For the year ended December 31, 2019, the Group has no additions to right-of-use assets.

D. The information on profit and loss accounts relating to lease contracts is as follows:

	Year ended
	December 31, 2019
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 1,229

E. For the year ended December 31, 2019, the Group's total cash outflow for leases was \$8,538.

F. Information about the right-of-use asset that were pledged to others as collaterals by the Group's subsidiary is provided in Note 8.

(6) Long-term prepaid rent

Prior to 2019

	<u>December 31, 2018</u>
Land use right	<u>\$ 11,936</u>

A. Long-term prepaid rent mainly arose from the consideration paid to the local government in Mainland China by the Group's subsidiary, TopFlex Corporation, for acquiring a specific land use right in December 2005. The royalty for the use of the land has been settled within the agreed payment date based on the lease agreement. The Group recognised rental expenses (shown as 'Administrative expense') of \$330 for the year ended December 31, 2018.

B. Information on the Group's land use right pledged to others as collateral for short-term mortgage is provided in Note 8.

(7) Other non-current assets – others

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Solar energy equipment	\$ 52,727	\$ 52,727
Less: Accumulated depreciation	(22,179)	(19,669)
	<u>30,548</u>	<u>33,058</u>
Other non-current financial assets		
Restricted assets	4,000	4,000
Others	4,028	5,612
	<u>\$ 38,576</u>	<u>\$ 42,670</u>

A. On January 27, 2011, the Group entered into purchase agreements with a total value of \$58,878 through instalment with a supplier regarding solar power system construction project and solar power system module equipment. The Group recognised the discounted amount of \$52,727 in instalments, which are listed as 'Other non-current assets, other'. Further details are shown as follows:

- (a) The supplier starts to collect the payment of equipment monthly after the project is finished and parallel generate electricity with Taiwan Power Group until the Group pays off. The monthly payment amount is 95% of the wholesale income from Taiwan Power Group.
- (b) Supplier guarantees the total electric energy production capacity in 20 years. The difference between production amount and supplier guarantee amount belongs to the Company after 20 years. The Group is required to purchase effective warranty from the supplier after 6 years of parallel electricity generation.
- (c) Based on the purchase agreement, the solar energy equipment purchased on instalment are recognised at the discounted value by period and listed as 'Other payables' and 'Other non-current liabilities'. Details of total future payable and the present value of the payable are shown as follows:

		Total long-term accounts payable	
		December 31, 2019	December 31, 2018
Long-term payables	\$	2,589	\$ 9,163
Less: Current portion		(2,589)	(4,926)
	\$	<u>-</u>	<u>\$ 4,237</u>
		Present value of long-term accounts payable	
		December 31, 2019	December 31, 2018
Long-term payables	\$	2,589	\$ 7,924
Less: Current portion		(2,589)	(4,690)
	\$	<u>-</u>	<u>\$ 3,234</u>

B. Please refer to Note 8 for the information on restricted assets of the Group.

(8) Short-term borrowings

	December 31, 2019	December 31, 2018
Secured bank borrowings	\$ 239,107	\$ 215,688
Unsecured bank borrowings	682,000	809,000
Other short-term borrowings - discounted notes	14,663	-
	<u>\$ 935,770</u>	<u>\$ 1,024,688</u>
Interest rate range	<u>0.61%~3.44%</u>	<u>0.85%~4.27%</u>

Please refer to Note 8 for the information on collateral of the aforementioned secured bank borrowings and other short-term borrowings.

(9) Other payables

	December 31, 2019	December 31, 2018
Construction payment refund	\$ 34,517	\$ 54,469
Estimated bonus payable	33,071	33,829
Business tax payable	17,962	26,947
Wages and salaries payable	12,837	12,771
Employees' compensation payable	12,317	15,399
Other payables-solar energy	2,589	4,690
Directors' remuneration payable	1,760	2,220
Other	65,939	75,603
	<u>\$ 180,992</u>	<u>\$ 225,928</u>

(10) Current provisions

<u>Warranty</u>	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 19,993	\$ 21,074
Additional provisions	4,326	1,698
Used provisions	(853)	(1,300)
Unused amounts reversed	(3,297)	(1,327)
Effect of foreign exchange	(269)	(152)
Balance at December 31	<u>\$ 19,900</u>	<u>\$ 19,993</u>

Analysis of provisions:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current	<u>\$ 19,900</u>	<u>\$ 19,993</u>

The Group's provision for warranties is regarding selling of soft copper foil substrate and back glue paper. Provision for warranties is estimated based on historical warranty data and is not expected to be significantly used in the next year.

(11) Long-term borrowings

<u>Creditor</u>	<u>Contract period and repayment term</u>	<u>Collateral</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Hua Nan Bank and 7 other banks	2017.03~2022.03, please refer to Note 1	Y	\$ 180,000	\$ 180,000
Bank of Taiwan	2019.10~2026.10, please refer to Note 2	N	164,000	-
E.SUN Bank	2019.08~2024.07, please refer to Note 3	N	83,450	-
KGI Bank	Note 4	N	-	100,000
			<u>\$ 427,450</u>	<u>\$ 280,000</u>
			<u>1.00%~1.80%</u>	<u>1.06%~1.80%</u>

Note 1: The Group entered into a contract for a syndicated borrowing of 7 banks including Hua Nan Bank on October 5, 2016. Key terms of the contract are as follows:

A. Credit line: total NT\$2 billion.

(a) Category A: Non-revolving medium-term credit line of NT \$500 million

(b) Category B: Medium-term credit line of NT \$1.5 billion or equivalent USD and can be redrawn

B. Loan terms: 5 years from the first drawing day. The first drawing day is defined as the day of 6 months after contract signing if the actual first drawing day is later than 6 months after contract signing.

C. Repayment:

(a)Category A: The principal is repayable in 5 average instalments semi-annually starting from the first repayment after 3 years from the first drawdown.

(b)Category B: Each drawdown needs to be repaid by the maturity day according to drawing application and redraw is only available after the previous maturity day. Repayment of the previous drawdown with the redraw money is allowed and the syndicated banks are not required to do the in and out transactions for the same amount.

D. Collateral: All plant properties are given the first priority maximum hypothec by the Group to the managing banks (pledge was registered on November 2, 2016). Insurance interest of pledged plant was transferred to the banks (letter of undertaking for transfer was signed on October 5, 2016). The borrower should set the new purchased machinery and equipment (including accessory equipment) as the first priority maximum hypothec and transfer to the managing banks for Category A credit line and residual value for enhancing Category B credit line.

E. Restrictions on financial ratios: During the contract period, the Group is required to calculate and maintain current ratio, debt ratio, times interest earned ratio and equity based on the audited annual consolidated financial statements and the reviewed the second quarter consolidated financial statements.

Note 2: The 'Project Loan Welcoming Taiwanese Return to Invest in Taiwan' that the Group financed from Bank of Taiwan is repaid starting from 3 years after the date of first drawing based on mutual agreement. The principal will be repaid monthly. The drawing period is 7 years starting from 2019.

Note 3: The 'Project Loan Welcoming Taiwanese Return to Invest in Taiwan' that the Group financed from E.SUN Bank is repayable at next payment after 36 months from the first drawdown based on mutual agreement. The principal will be repaid monthly. The drawing period is 5 years starting from July 2019.

Note 4: The Group entered into an unsecured borrowings contract with KGI Bank for financing. Based on the agreement, the contract was a long-term borrowings contract and can be redrawn with the loan terms from the contract signing day to the maturity day. Interest was repayable monthly and principal was repayable in full at end of the terms. The borrowing contract with loan terms from January 9, 2017 to January 9, 2019 was resigned on October 9, 2018 with KGI Bank with the loan terms extended to August 28, 2020. Moreover, the Group had repaid the loan during September 2019.

(12) Pensions

- A. Effective July 1, 2005, the Group has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Group contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- B. The Company’s mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- C. The pension costs under the defined contribution pension plan of the Group for the years ended December 31, 2019 and 2018 were \$5,885 and \$5,744, respectively.

(13) Share capital

As of December 31, 2019, the Group’s authorized capital was \$2,000,000, consisting of 200,000 thousand shares, and the paid-in capital was \$1,006,378 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

The number of the Company’s ordinary shares outstanding at January 1 and December 31, 2019 was both 100,638 thousand shares.

In order to attract, hold and encourage professionals, share operating result of the Company and strengthen coherence of the Company, the Board of Directors has resolved that the Company to issue employee stock option certificates on December 4, 2019. The expected total issued amount is 2,500 units, each unit can be used to purchase 1,000 shares of the Company’s shares. The issuance period is within one year effective from the date that the Company receive the approval from the regulatory authority. It is a one-time or partial issuance according to actual needs. The actual issue date and related procedures shall be determined by the Chairman.

(14) Retained earnings

- A. Under the Group’s Articles of Incorporation, in order to align with the overall environment of the Group and the characteristics of the industry growth, as well as the Group’s long-term financial planning and ongoing and stable development, the residual dividend policy is adopted. The current year’s earnings, if any, except for paying all business income taxes and offset prior years’ operating losses, shall first be set aside 10% of the remaining amount as legal reserve. When the legal reserve amount reaches the total capital amount, the Group shall not be subject to this requirement, and special reserve shall be set aside or reversed in accordance with related laws. The special reserve along with unappropriated retained earnings at the beginning of the period are appropriated as accumulated distributable earnings of stockholders. The appropriation shall be proposed by the Board of Directors and be resolved by the stockholders.

The proposed distribution of residual dividend shall be no less than 10% of the current year distributable earnings of the Group and cash dividend shall be no less than 10% of the total dividend distributed to stockholders.

Under a resolution made by the Board of Directors, which has more than 2/3 directors attended the meeting and more than 1/2 attended directors agreed, full or partial of the distributable dividends and bonus, capital surplus or legal reserve will be distributed in the form of cash, and it will be reported to the shareholders. The regulation in relation to approval from the shareholders as above mentioned is not applicable.

- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Group's paid-in capital.
- C. The Group recognised dividends distributed to owners amounting to \$100,638 at \$1 (in dollars) per share and \$110,702 at \$1.1 (in dollars) per share for the years ended December 31, 2019 and 2018, respectively. On March 11, 2020, the Board of Directors proposed that total dividends for the distribution of earnings for the year of 2019 was \$90,574 at \$0.9 (in dollars) per share.

(15) Operating revenue

The revenue from contracts with customers are from the transfer of goods and services at a point in time recognised as the following major geographical regions:

<u>Regions of external customers</u>	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
China	\$ 2,544,979	\$ 2,287,588
Taiwan	303,876	265,270
Others	60,559	64,105
	<u>2,909,414</u>	<u>2,616,963</u>

(16) Other income

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Interest income	\$ 5,957	\$ 3,383
Revenue from solar energy	3,319	3,534
Other income - others	3,860	3,842
	<u>\$ 13,136</u>	<u>\$ 10,759</u>

(17) Other gains and losses

	Years ended December 31,	
	2019	2018
Net losses on disposal of property, plant and equipment	(\$ 399)	(\$ 690)
Net foreign exchange losses	(30,923)	(2,018)
Miscellaneous disbursements	(6,258)	(6,259)
	<u>(\$ 37,580)</u>	<u>(\$ 8,967)</u>

(18) Finance costs

	Years ended December 31,	
	2019	2018
Interest expense:		
Bank borrowings	\$ 22,313	\$ 17,786
Less: Capitalisation of qualifying assets (including unfinished construction)	(2,004)	(401)
Discounted solar energy equipment	112	223
Lease liability	1,229	-
	<u>\$ 21,650</u>	<u>\$ 17,608</u>

(19) Expenses by nature

	Years ended December 31,	
	2019	2018
Raw materials and supplies used	\$ 1,240,474	\$ 1,097,816
Change in inventory of finished goods and work in progress	708,367	540,189
Employee benefit expense	238,498	246,866
Depreciation charges on property, plant and equipment	153,853	157,201
Depreciation charges on right-of-use assets	8,196	-
Amortisation charges on intangible assets	3,175	1,558
Utilities expense	45,161	44,830
Repairs and maintenance expense	28,308	32,419
Other expenses	270,412	279,944
Total operating costs and expenses	<u>\$ 2,696,444</u>	<u>\$ 2,400,823</u>

(20) Employee benefit expense

	Years ended December 31,	
	2019	2018
Wages and salaries	\$ 203,753	\$ 210,928
Labour and health insurance fees	12,375	11,786
Pension costs	5,885	5,744
Directors' remuneration	2,848	3,241
Other personnel expenses	13,637	15,167
	<u>\$ 238,498</u>	<u>\$ 246,866</u>

- A. In accordance with the Articles of Incorporation of the Group, the ratio of distributable profit of the current year shall be 1%~15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration. However, if a company has accumulated deficit, earnings shall be retained to cover losses first. The employees' compensation will be distributed in the form of shares or cash, qualified employees including the employees of subsidiaries of the Group meeting certain specific requirements. Aforementioned distributable earnings are based on current pre-tax profit before deduction of employees' compensation and directors' and supervisors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.
- B. The Board of Directors was authorized to decide the directors' remuneration of the Group after considering the Compensation Committee's suggestions, the Board of Directors participation degree and contribution value as well as the industry standard, and the 'directors' remuneration regulation' of the Group.
- C. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at \$12,317 and \$15,399, respectively; while directors' remuneration was accrued at \$1,760 and \$2,200, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' remuneration were estimated and accrued based on the percentage of 2019 current profit as prescribed by the Group's Articles of Incorporation. The employees' compensation and directors' remuneration resolved by the Board of Directors meeting on March 11, 2020 were in agreement with those amount recognised in 2019 financial statements, and the employees' compensation will be distributed in the form of cash.

The employees' compensation and directors' remuneration of 2018 resolved by the Board of Directors were in agreement with those amount recognised in 2018 financial statements, and the employees' compensation will be distributed in the form of cash.

Information about employees' compensation and directors' remuneration of the Group as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Income tax

A. Income tax expense

Components of income tax expense:

	Years ended December 31,	
	2019	2018
Current tax:		
Current tax on profits for the year	\$ 45,789	\$ 37,613
Additional tax on undistributed earnings	1,885	4,004
Prior year income tax overestimation	(5,873)	(3,818)
Total current tax	<u>41,801</u>	<u>37,799</u>
Deferred tax:		
Origination and reversal of temporary differences	(15,520)	366
Impact of change in tax rate	-	(2,564)
Effect of foreign exchange	(113)	90
Total deferred tax	<u>(15,633)</u>	<u>(2,108)</u>
Income tax expense	<u>\$ 26,168</u>	<u>\$ 35,691</u>

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 38,546	\$ 40,426
Effects from items disallowed by tax regulation	(8,277)	(2,447)
Additional tax on undistributed earnings	1,885	4,004
Prior year income tax overestimation	(5,873)	(3,818)
Impact of change in tax rate	-	(2,564)
Effect of foreign exchange	(113)	90
Income tax expense	<u>\$ 26,168</u>	<u>\$ 35,691</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets as a result of temporary differences as follows:

	2019		
	January 1	Recognised in profit or loss	December 31
Deferred income tax assets			
Temporary differences:			
Impairment loss	\$ 52	(\$ 8)	\$ 44
Allowance for inventories valuation loss	14,958	8,870	23,828
Others	7,640	6,658	14,298
	<u>\$ 22,650</u>	<u>\$ 15,520</u>	<u>\$ 38,170</u>
	2018		
	January 1	Recognised in profit or loss	December 31
Deferred income tax assets			
Temporary differences:			
Impairment loss	\$ 59	(\$ 7)	\$ 52
Allowance for inventories valuation loss	10,386	4,572	14,958
Others	10,007	(2,367)	7,640
	<u>\$ 20,452</u>	<u>\$ 2,198</u>	<u>\$ 22,650</u>

D. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	December 31, 2019	December 31, 2018
Deductible temporary differences	<u>\$ 7,629</u>	<u>\$ 15,207</u>

- E. The Group's income tax returns through 2017 have been assessed and approved by the Tax Authority. As of the date of the audit report, the Group has no significant administrative remedies for pending tax.
- F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Group'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.

(22) Earnings per share

	<u>Year ended December 31, 2019</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	\$ 140,708	100,638	\$ 1.40
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	140,708	100,638	
Assumed conversion of all dilutive potential ordinary shares:			
Employees' compensation	-	449	
Profit attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	\$ 140,708	101,087	\$ 1.39

	<u>Year ended December 31, 2018</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	\$ 164,633	100,638	\$ 1.64
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	164,633	100,638	
Assumed conversion of all dilutive potential ordinary shares:			
Employees' compensation	-	805	
Profit attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	\$ 164,633	101,443	\$ 1.62

As employees' compensation could be distributed in the form of stock, the diluted EPS computation shall assume that distribution will be in the form of stocks in the calculation of the weighted-average number of common shares outstanding during the reporting year, taking into account the dilutive effects of stock bonus on potential common share.

(23) Operating leases

Prior to 2019

The Group leases in land of Southern Taiwan Science Park Bureau under non-cancellable operating lease agreements and most of these lease agreements are renewable at the end of the lease period at the market price. The future aggregate minimum lease payments under lease term and non-cancellable operating leases are as follows:

<u>Lease term</u>	<u>Lease object</u>	<u>Term</u>
	Luzhu Dist Luke Wuchang-First	2007.06~2027.05, total 20 years
	Luzhu Dist Luke Wuchang-Second	2018.09~2038.09, total 20 years

<u>Future aggregate minimum lease payments</u>	<u>December 31, 2018</u>
Less than 1 year	\$ 8,537
Later than 1 year but not later than 5 years	37,413
More than 5 years	62,874
	<u>\$ 108,824</u>

(24) Supplemental cash flow information

A. Investing and financing activities with partial cash payments:

(a) Purchase of property, plant and equipment

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Purchase of property, plant and equipment	\$ 143,985	\$ 234,672
Add: Opening balance of payable on equipment (Shown as 'Other payables')	54,469	26,375
Less: Ending balance of payable on equipment (Shown as 'Other payables')	(34,517)	(54,469)
Cash paid during the year	<u>\$ 163,937</u>	<u>\$ 206,578</u>

(b) Purchase of solar energy equipment (Shown as 'Other non-current assets, others')

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Purchase of solar energy equipment	\$ -	\$ -
Add: Opening balance of other payables Opening balance of long-term accounts payable (Shown as 'Other non-current liabilities')	4,690	4,629
Less: Ending balance of other payables Ending balance of long-term accounts payable, end of period (Shown as 'Other non-current liabilities')	(2,589)	(4,690)
Cash paid during the year	<u>\$ 5,335</u>	<u>\$ 5,499</u>

B. Investment and financing activities with no cash flow effects:

	Years ended December 31,	
	2019	2018
Reclassified prepayments for business facilities to property, plant and equipment	\$ 96,796	\$ 72,964

(25) Changes in liabilities from financing activities

	2019			Liabilities from financing activities-gross
	Short-term borrowings	Long-term borrowings	Lease liability	
At January 1	\$ 1,024,688	\$ 280,000	\$ 98,928	\$ 1,403,616
Changes in cash flow from financing activities	(79,742)	147,450	(7,309)	60,399
Effect of foreign exchange	(9,176)	-	-	(9,176)
At December 31	<u>\$ 935,770</u>	<u>\$ 427,450</u>	<u>\$ 91,619</u>	<u>\$ 1,454,839</u>

	2018		
	Short-term borrowings	Long-term borrowings	Liabilities from financing activities-gross
At January 1	\$ 633,545	\$ 160,000	\$ 793,545
Changes in cash flow from financing activities	396,587	120,000	516,587
Effect of foreign exchange	(5,444)	-	(5,444)
At December 31	<u>\$ 1,024,688</u>	<u>\$ 280,000</u>	<u>\$ 1,304,688</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Arisawa Manufacturing Co., Ltd.	Ultimate parent company
CHANG WAH ELECTROMATERIALS INC.	The Company's Chairman is its director

(2) Significant related party transactions

A. Operating revenue

	Years ended December 31,	
	2019	2018
Sales of goods:		
-Ultimate parent	\$ 12,591	\$ 10,139
-Other related parties - CHANG WAH	630	-
	<u>\$ 13,221</u>	<u>\$ 10,139</u>

(a) Because of different product types, the sale price for related parties, ultimate parent company and subsidiaries, and general customers are not comparable.

(b) The product types and sale price for other related parties has no significant difference with general customers.

B. Purchases

	Years ended December 31,	
	2019	2018
Purchase:		
-Ultimate parent	<u>\$ 624,693</u>	<u>\$ 579,526</u>

Because of different product types, the purchase price for related parties, ultimate parent company and subsidiaries, and general customers are not comparable.

C. Receivables from related parties

	December 31, 2019	December 31, 2018
Accounts receivable:		
-Ultimate parent	\$ 106	\$ 731
-Other related parties - CHANG WAH	383	-
	<u>\$ 489</u>	<u>\$ 731</u>
Other receivables:		
-Ultimate parent	217	373
	<u>\$ 706</u>	<u>\$ 1,104</u>

(a) The collection term for related parties, ultimate parent company, is T/T 60 days. The collection term to general customers is T/T 30~165 days.

(b) The collection term for related parties, CHANG WAH, is T/T 90 days. The collection term to general customers is T/T 30~165 days.

D. Payables to related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable:		
-Ultimate parent	\$ 198,818	\$ 211,894
Other payables:		
-Ultimate parent	180	-
	<u>\$ 198,998</u>	<u>\$ 211,894</u>

The payment term for related parties, ultimate parent company, is T/T 90 days. The payment term to general suppliers is T/T 60~120 days.

E. Property transactions

The Company purchased equipment total amounted to JPY 95,700 thousand (approximately NT\$27,294 thousand) from the ultimate parent company, Arisawa Manufacturing Co., Ltd., in October 2019. Under the agreement, prepayments for business facilities amounted to \$8,188 (approximately JPY 28,710 thousand, shown as ‘prepayments for business facilities’). As of December 31, 2019, the inspection of machinery delivery was not yet completed and the balance unpaid was amounting to \$19,106 (approximately JPY 66,990 thousand). In addition, there was no such transaction for the year ended December 31, 2018.

(3) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 20,114	\$ 18,285
Business reimbursements	1,112	1,031
	<u>\$ 21,226</u>	<u>\$ 19,316</u>

8. PLEDGED ASSETS

The Group’s assets pledged as collateral are as follows:

	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	
Notes receivable	\$ 14,663	\$ -	Short-term borrowings
Time deposits (shown as ‘Other non-current assets, others’)	4,000	4,000	Customs duty guarantee
Buildings and structures, net	216,405	247,939	Short-term borrowings and credit line of syndicated loan
Machinery and equipment, net	58,893	90,772	Long-term borrowings
Land use right (shown as ‘right-of-use assets’ and ‘long-term prepaid rent’)	11,166	11,936	Short-term borrowings
	<u>\$ 305,127</u>	<u>\$ 354,647</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies: None.

(2) Commitments

- A. As of December 31, 2019 and 2018, the Group had unused letters of credit amounting to \$154,217 and \$80,356, respectively.
- B. On January 27, 2011, the Group entered into purchase agreements with total value of \$58,878 through instalment with a supplier regarding solar power system construction project and solar power system module equipment. Please refer to Note 6(7) for further information.
- C. Operating leases agreement
Please refer to Note 6(5) and (23) for further information.
- D. As of December 31, 2019 and 2018, the total amount of contracts signed (before tax) were \$231,013 and \$344,073 with the outstanding balance of \$77,773 and \$65,171, respectively. Please refer to Note 7 for further information.
- E. The Group entered into a contract for a syndicated borrowing of 7 banks including Hua Nan Bank. Please refer to Note 6(11) for further information on restrictions on financial ratios of borrowing contract.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On March 11, 2020, the Board of Directors resolved the appropriation of 2019 earnings. Please refer to Note 6(14) for further information.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure. Because the Group needs to maintain the capital for expanding and improving plant and equipment, the Group's capital management is to ensure it has sufficient financial resources and operating plans to meet operational capital for future needs, capital expenditure, research and development expense, obligation repayment and dividend distribution within the next year.

During the year ended December 31, 2019, the Group's strategy, which was unchanged from 2018, was to maintain the gearing ratio. The gearing ratios at December 31, 2019 and 2018 were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total liabilities	\$ 2,183,271	\$ 1,995,255
Total assets	\$ 3,690,099	\$ 3,475,057
Gearing ratio	59%	57%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Financial assets		
Financial assets at amortised cost		
Cash and cash equivalents	\$ 468,264	\$ 424,164
Notes receivable	473,060	387,473
Accounts receivable (including related parties)	1,300,758	1,157,443
Other receivables	4,903	3,730
Guarantee deposits paid	8,455	9,057
Other financial assets	4,000	4,000
	<u>\$ 2,259,440</u>	<u>\$ 1,985,867</u>
Financial liabilities		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 935,770	\$ 1,024,688
Accounts payable (including related parties)	491,934	407,248
Other payables	180,992	225,928
Long-term borrowings	427,450	280,000
Other financial liabilities	-	3,234
	<u>\$ 2,036,146</u>	<u>\$ 1,941,098</u>
Lease liability	<u>\$ 91,619</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts is used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) The supervision of the risk management is through the Board of Directors that sets out the related regulations and authorizes the management to conduct daily operations under tolerable risk and requiring an assessment report of the internal control management. The management shall report to the Board of Directors immediately if any abnormal situation occurs and take appropriate actions to protect the Group.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Exchange rate risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Group used in various functional currency, primarily with respect to the USD, JPY and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and JPY expenditures. Forward foreign exchange contracts are adopted to minimise the expected exchange rate risk of trading.
- iii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019		
	Foreign currency		
	amount	Exchange	
	<u>(In thousands)</u>	<u>rate</u>	<u>Book value</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 17,421	29.98	\$ 522,282
USD: RMB	6,717	6.968	201,376
JPY: NTD	45,605	0.276	12,587
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 13,440	29.98	\$ 402,931
USD:RMB	8,464	6.998	253,751
JPY: NTD	28,987	0.276	8,000

	December 31, 2018		
	Foreign currency amount (In thousands)	Exchange rate	Book value
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 17,596	30.72	\$ 540,549
USD: RMB	6,711	6.866	206,162
JPY: NTD	9,608	0.278	2,671
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 11,318	30.72	\$ 347,689
USD:RMB	7,828	6.866	240,476

iv. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018, amounted to \$30,923 and \$2,018, respectively.

v. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 5,223	\$ -
USD:RMB	1%	2,014	-
JPY:NTD	1%	126	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 4,029	\$ -
USD:RMB	1%	2,538	-
JPY: NTD	1%	80	-

	December 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 5,405	\$ -
USD:RMB	1%	2,062	-
JPY: NTD	1%	27	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 3,477	\$ -
USD:RMB	1%	2,405	-

Price risk

The Group is not exposed to significant price risk.

Cash flow and fair value interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings and long-term borrowings (including current portion). Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates.
 - ii. Based on the simulations performed, the impact on pre-tax profit and loss of interest rate shift would be a maximum increase of \$6,816 or decrease of \$6,523 for the years ended December 31, 2019 and 2018, respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.
- (b) Credit risk
- i. 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.
 - ii. The credit risks of bank deposits and other financial instruments are measured and monitored by the Group's financial department. The Group's counterparties of transactions and contracts are banks with optimal credit score and financial organizations and corporations with credit grade above investment. Therefore, the concern and the possibility of default are remote.
 - iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
 - iv. The Group classifies customers' accounts receivable in accordance with credit rating of customer. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

- v. 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. As of December 31, 2019 and 2018, the Group has no obligations which were written off but could still claim.
- vi. As at December 31, 2019 and 2018, loss allowance for accounts receivable based on individual provision and provision matrix is as follows:

	Individual	Not past due ~				Total
		Up to 30 days past due	31~60 days past due	61~90 days past due	Over 91 days past due	
<u>December 31, 2019</u>						
Expected loss rate	100%	0.01%~0.08%	30%	60%	100%	
Total book value	\$ -	\$ 1,297,570	\$ 4,529	\$ 43	\$ -	\$ 1,302,142
Required loss allowance	\$ -	\$ 1,038	\$ 1,359	\$ 25	\$ -	\$ 2,422
Book value of loss allowance	\$ -	\$ -	\$ 1,359	\$ 25	\$ -	\$ 1,384

	Individual	Not past due	Up to 30 days			Total
			past due	past due	past due	
<u>December 31, 2018</u>						
Expected loss rate	100%	0.01%~0.08%	30%	60%	100%	
Total book value	\$ 5,083	\$ 1,157,443	\$ -	\$ -	\$ 1,534	\$ 1,164,060
Required loss allowance	\$ 5,083	\$ 926	\$ -	\$ -	\$ 1,534	\$ 7,543
Book value of loss allowance	\$ 5,083	\$ -	\$ -	\$ -	\$ 1,534	\$ 6,617

- vii. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	2019	
	Accounts receivable	Notes receivable
At January 1	\$ 6,617	\$ -
Reversal of impairment loss	1,442	-
Transferred to overdue receivables	(6,626)	-
Effect of foreign exchange	(49)	-
At December 31	\$ 1,384	\$ -
	2018	
	Accounts receivable	Notes receivable
At January 1	\$ 2,192	\$ -
Reversal of impairment loss	3,591	-
Effect of foreign exchange	834	-
At December 31	\$ 6,617	\$ -

(c) Liquidity risk

The Group's object on liquidity risk management is to ensure the sufficiency of financial flexibility by maintaining cash and bank deposits for operating and adequate bank financing quota.

The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	December 31, 2019		
	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Over 2 years</u>
<u>Non-derivative financial liabilities:</u>			
Short-term borrowings	\$ 938,465	\$ -	\$ -
Accounts payable	293,116	-	-
Accounts payable to related parties	198,818	-	-
Other payables	178,403	-	-
Lease liability	8,538	8,538	83,211
Long-term borrowings (including current portion)	5,709	5,709	438,039
Other non-current liabilities (including current portion)	2,589	-	-
	December 31, 2018		
	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Over 2 years</u>
<u>Non-derivative financial liabilities:</u>			
Short-term borrowings	\$ 1,027,077	\$ -	\$ -
Accounts payable	195,354	-	-
Accounts payable to related parties	211,894	-	-
Other payables	221,238	-	-
Long-term borrowings (including current portion)	4,298	104,056	183,846
Other non-current liabilities (including current portion)	4,690	3,234	-

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take 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.

Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

The management of the Group argues that the carrying values of those financial assets and liabilities are not measured at fair value are almost equal approximate to their fair values. Those financial assets and liabilities including cash and cash equivalents, notes receivable, accounts receivable (including from related parties), other receivables, other financial assets (shown as 'Other current assets - other'), guarantee deposits, short-term borrowings, accounts payable (including to related parties), other payables and long-term borrowings.

C. As of December 31, 2019 and 2018, the Group has no financial and non-financial instruments at fair value.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.

I. Derivative transaction: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. OPERATING SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Chief Operating Decision-Maker that are used to make strategic decisions. The Group considers the business from a company (plant) perspective; The operating businesses currently are Thinflex and Topflex (including the holding parent company).

(2) Measurement of segment information

The Chief Operating Decision-Maker assesses the performance of the operating segments based on the profit (loss) before taxes. The Group's segment profit (loss) is measured with the income before tax less non-operating income and expenses, which is used as a basis for the Group in assessing the performance of the operating segments.

(3) Information about segment profit or loss and assets

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

2019

<u>Item</u>	<u>ThinFlex Corporation</u>	<u>TopFlex Corporation</u>	<u>Write-off and Adjustment</u>	<u>Total</u>
External revenue	\$ 991,561	\$ 1,917,853	\$ -	\$ 2,909,414
Internal revenue-net	1,284,087	7,837	(1,291,924)	-
Segment revenue	<u>\$ 2,275,648</u>	<u>\$ 1,925,690</u>	<u>(\$ 1,291,924)</u>	<u>\$ 2,909,414</u>
Segment income	<u>\$ 145,513</u>	<u>\$ 67,457</u>	<u>\$ -</u>	<u>\$ 212,970</u>
Segment assets including:				
Current assets	\$ 1,920,911	\$ 1,769,425	(\$ 1,058,064)	\$ 2,632,272
Investments accounted for using equity method	458,344	-	(458,344)	-
Other non-current assets (Not included deferred tax assets)	902,921	116,736	-	1,019,657
Deferred tax assets	30,560	7,610	-	38,170
Total segment assets	<u>\$ 3,312,736</u>	<u>\$ 1,893,771</u>	<u>(\$ 1,516,408)</u>	<u>\$ 3,690,099</u>
Segment liabilities	<u>\$ 1,805,909</u>	<u>\$ 1,435,426</u>	<u>(\$ 1,058,064)</u>	<u>\$ 2,183,271</u>

2018

Item	ThinFlex Corporation	TopFlex Corporation	Write-off and Adjustment	Total
External revenue	\$ 991,696	\$ 1,625,267	\$ -	\$ 2,616,963
Internal revenue-net	<u>1,021,630</u>	<u>8,231</u>	<u>(1,029,861)</u>	<u>-</u>
Segment revenue	<u>\$ 2,013,326</u>	<u>\$ 1,633,498</u>	<u>(\$ 1,029,861)</u>	<u>\$ 2,616,963</u>
Segment income	<u>\$ 155,477</u>	<u>\$ 60,663</u>	<u>\$ -</u>	<u>\$ 216,140</u>
Segment assets including:				
Current assets	\$ 1,889,175	\$ 1,585,800	(\$ 958,146)	\$ 2,516,829
Investments accounted for using equity method	433,302	-	(433,302)	-
Other non-current assets				
(Not included deferred tax assets)	806,765	128,813	-	935,578
Deferred tax assets	<u>14,410</u>	<u>8,240</u>	<u>-</u>	<u>22,650</u>
Total segment assets	<u>\$ 3,143,652</u>	<u>\$ 1,722,853</u>	<u>(\$ 1,391,448)</u>	<u>\$ 3,475,057</u>
Segment liabilities	<u>\$ 1,663,849</u>	<u>\$ 1,289,552</u>	<u>(\$ 958,146)</u>	<u>\$ 1,995,255</u>

(4) Reconciliation for segment income (loss)

As mentioned in Note 14(3), total amount of reportable segment and disclosure of other significant matters are reported in a manner consistent with the profit or loss before tax less non-operating income and expenses, assets and liabilities and their according amount stated in financial statements.

A reconciliation of reportable segment income or loss to the income/(loss) before tax from continuing operations for the years ended December 31, 2019 and 2018 is provided as follows:

	2019	2018
Total reportable segment income	\$ 212,970	\$ 216,140
Non-operating income and expenses	<u>(46,094)</u>	<u>(15,816)</u>
Income before tax from continuing operations	<u>\$ 166,876</u>	<u>\$ 200,324</u>

(5) Information on products and services

Revenue from external customers is mainly from flexible copper clad laminate and adhesive film.

Details of revenue is as follows:

	2019	2018
Flexible copper clad laminate	\$ 2,605,585	\$ 2,382,417
Adhesive film	271,207	205,877
Others	<u>32,622</u>	<u>28,669</u>
	<u>\$ 2,909,414</u>	<u>\$ 2,616,963</u>

(6) Geographical information

Geographical information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	Export sales from external customers			
	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	Non-current assets	Revenue	Non-current assets
China	\$ 2,544,979	\$ 114,286	\$ 2,287,588	\$ 126,300
Taiwan	303,876	896,916	265,270	800,221
Others	60,559	-	64,105	-
	<u>\$ 2,909,414</u>	<u>\$ 1,011,202</u>	<u>\$ 2,616,963</u>	<u>\$ 926,521</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	Segment	Revenue	Segment
Group A	\$ 919,204	Parent and subsidiary company	\$ 731,663	Parent and subsidiary company
Company B	360,544	Parent and subsidiary company	372,951	Parent and subsidiary company
Company C	221,639	Parent and subsidiary company	266,714	Parent and subsidiary company
	<u>\$ 1,501,387</u>		<u>\$ 1,371,328</u>	

ThinFlex Corporation
Loans to others

For the year ended December 31, 2019

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2019	Balance at December 31, 2019	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party(Note 2)	Ceiling on total loans granted (Note 2)	Footnote
													Item	Value			
0	ThinFlex Corporation	TopFlex Corporation	Parties	Y	\$ 376,680	\$ 359,760	\$ 359,760	LIBOR+0.5%	Short-term financing	\$ -	- Working capital and repayment of loan	\$ -	Note	\$ -	\$ 602,731	\$ 602,731	Note 3

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: In accordance with the Company's "Procedures for Provision of Loans", the limit on total loans granted is 40% of the Company's net asset. Limit on loans granted to a single party with short-term financing is also 40% of the Company's net asset;

Note 3: US dollars were translated into New Taiwan dollars at average exchange rate 29.98 on the financial reporting date.

ThianFlex Corporation
Provision of endorsements and guarantees to others
For the year ended December 31, 2019

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 2

Party being endorsed/guaranteed		Relationship with the endorser/guarantor	Limit on endorsements/guarantees provided for a single party (Note 2)	Maximum outstanding endorsement/guarantee amount as of December 31, 2019	Outstanding endorsement/guarantee amount at December 31, 2019	Actual amount drawn down	Amount of endorsements/guarantees secured with collateral	Ratio of accumulated endorsement/guarantee amount to net asset value of the endorser/guarantor company	Ceiling on total amount of endorsements/guarantees provided (Note 2)	Provision of endorsements/guarantees by parent company to subsidiary	Provision of endorsements/guarantees by subsidiary to parent company	Provision of endorsements/guarantees to the party in Mainland China	Footnote
0	ThianFlex Corporation	TopFlex Corporation	\$ 301,365	\$ 252,800	\$ 239,840	\$ 239,840	\$ -	15.92%	\$ 602,731	Y	N	Y	Note 3

Note 1: The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

Note 2: In accordance with the Company's "Procedures for Provision of Endorsements and Guarantees", the limit on total endorsements and guarantees of the Company and its subsidiaries to others is 40% of the Company's net asset. Limit on endorsements and guarantees to a single party is 20% of the Company's net asset.

Note 3: US dollars were translated into New Taiwan dollars at average exchange rate 29.98 on the financial reporting date.

Table 2

ThinFlex Corporation
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
For the year ended December 31, 2019

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 3

Seller/purchaser	Counterparty	Relationship with the counterparty	Sales (purchases)	Amount	Percentage of total sales (purchases)	Credit term	Unit price	Compared to third party transactions		Footnote
								Notes/accounts receivable (payable)	Balance	
ThinFlex Corporation	Arisawa Manufacturing Co., Ltd.	Ultimate parent company	Purchase	\$ 624,693	(41%)	T/T 90 days	Note 1	Note 3	198,817	(47%)
ThinFlex Corporation	TopFlex Corporation	Subsidiary	Sales	1,284,087	56%	T/T 150 days	Note 2	Note 4	686,744	66%
TopFlex Corporation	ThinFlex Corporation	The Company	Purchase	(1,284,087)	(79%)	T/T 150 days	Note 2	Note 5	(686,744)	(91%)

Note 1: Because of different product types, the purchase price for related parties, ultimate parent company, and general customers are not comparable.

Note 2: The sales and purchase transactions between the Company and its subsidiaries were based on cost plus reasonable profit.

Note 3: The payment term of general suppliers was T/T 60-120 days which was mainly based on the rules regarding payment term to suppliers of the Company.

Note 4: The collection term of general customers was T/T 30-165 days which was mainly based on the credit management rules of the Company.

Note 5: Because of different product types, the payment term of related parties was determined in accordance with the mutual agreement. For general suppliers, the payment terms was prepayments or T/T 90 days.

ThinFlex Corporation
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
 December 31, 2019

Table 4

Expressed in thousands of NTD
 (Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
ThinFlex Corporation	TopFlex Corporation	Subsidiary	Accounts receivable \$ 686,744	2.03	\$ -	None	\$ 242,414	\$ -
ThinFlex Corporation	TopFlex Corporation	Subsidiary	Other receivable \$ 367,654	N/A	-	None	846	-

ThinFlex Corporation
 Significant inter-company transactions during the reporting periods
 For the year ended December 31, 2019

Expressed in thousands of NTD
 (Except as otherwise indicated)

Table 5

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	ThinFlex Corporation	TopFlex Corporation	1	Sales revenue	\$ 1,284,087	Note 4	44%
0	ThinFlex Corporation	TopFlex Corporation	1	Purchase	7,837	Note 5	-
0	ThinFlex Corporation	TopFlex Corporation	1	Accounts receivable	686,744	Note 4	19%
0	ThinFlex Corporation	TopFlex Corporation	1	Other receivables - loans to others	367,654	Note 6	10%
0	ThinFlex Corporation	TopFlex Corporation	1	Accounts payable	3,606	Note 5	-
0	ThinFlex Corporation	TopFlex Corporation	1	Endorsements and guarantees	239,840	-	6%
0	ThinFlex Corporation	TopFlex Corporation	1	Interest income	8,502	Note 6	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1). Parent company is '0'.

(2). The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.);

(1). Parent company to subsidiary.

(2). Subsidiary to parent company.

(3). Subsidiary to subsidiary.

Note 3: For the percentage of transaction amounts to consolidated total operating revenues or total assets, if balance sheet accounts, using the method by calculating the percentage of year-end balance to consolidated total assets; if statements of income accounts, using the method by calculating the percentage of current year accumulated amounts to consolidated total operating revenues.

Note 4: The sales of the Company are calculated by cost plus reasonable profit. Because of different product type, the transaction price for inter-company and general customers are not comparable.

The collection term for inter-company is T/T 150 days.

Note 5: The payment term of inter-company was T/T 120 days and of general suppliers was T/T 60-120 days.

Note 6: The amount of \$359,760 included. The amount of \$359,760 is loans to others, which bears interest of 3-month LIBOR plus 0.5% per annum.

ThinFlex Corporation
Information on investees
Year ended December 31, 2019

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019		Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Footnote
				December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018					
ThinFlex Corporation	ThinFlex Technology Corp.	British Virgin Islands	Investing in other locations	\$ 549,642	\$ 549,642	17,062,275	100.00	\$ 458,344	\$ 37,885	\$ 37,885		

Note: The investment income or loss was recognised basing on the audited financial statements of the investee companies.

ThinFlex Corporation
 Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas
 For the year ended December 31, 2019

Table 8

Expressed in thousands of NTD
 (Except as otherwise indicated)

Investee in Mainland China	Sale (Purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the year ended	
	Amount	%	Amount	%	Amount	%	Balance at December 31, 2019	Maximum balance during the year ended December 31, 2019	Balance at December 31, 2019	Interest rate	December 31, 2019	Others
TopFlex Corporation	\$ 1,284,087	56%	-	-	\$ 686,744	66%	\$ 239,840	\$ 376,680	\$ 359,760	LIBOR+0.5%	8,502	-
TopFlex Corporation	(7,837)	(1%)	-	-	(3,606)	(1%)	-	-	-	-	-	-