

**GALLANT PRECISION MACHINING CO.,
LTD. 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

The entities that are required to be included in the combined financial statements of Gallant Precision Machining Co., Ltd. as of and for the year ended December 31, 2019, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Gallant Precision Machining Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

GALLANT PRECISION MACHINING CO., LTD.

By

Chairman

March 24, 2020

REPORT OF INDEPENDENT ACCOUNTANTS

To Gallant Precision Machining Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Gallant Precision Machining Co., Ltd. and its 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 ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of the other independent accountants, as described in the Other matter section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018, 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 audit in accordance with the “Regulations Governing Auditing and 「Financial Supervisory Commission Letter No. 1090360805 of February 25, 2020」 and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”) for the year ended December 31, 2019. Our responsibilities under those standards are further described in the section of Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements 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. Based on our audits and the audits report of the other independent accountants, 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.

Key audit matters for the Group's consolidated financial statements in the current period are stated as follows:

Evaluation of inventories

Description

Gallant Precision Machining Co., Ltd. and its subsidiaries are primarily engaged in the manufacture and sale of flat panel display testing equipment, semiconductor assembly equipment, intelligent automated equipment, and related parts. Inventories are stated at the lower of cost and net realizable value and regarding the accounting policy on the evaluation of inventories are disclosed in Note 4(12) of the consolidated financial statements. The uncertainty of accounting estimations and assumptions for valuation of inventories are disclosed in Note 5(2) of the consolidated financial statements. The inventories and allowance for inventory valuation loss amounting to NT1,086,503 thousand and NT148,268 thousand as of December 31, 2019 are disclosed in Note 6(6) of the consolidated financial statements.

As the amount of inventory is significant, and the estimation of net realizable value of inventories for exceeded specific age, and individually identified out of date or damaged inventories are subject to management's judgement, the evaluation of inventories has been identified a key audit matters.

How our audit addressed the matter

Our audit procedures performed included the following:

1. Obtained an understanding and assessed the reasonableness of the policy of the allowance for inventory valuation loss and compared whether consistent application of accounting policies in relation to the provision for inventory valuation losses.
2. Tested the accuracy of inventory aging report, included tested whether the quantity and amount of inventory is consistent with inventory ledger and verify the accuracy of the inventory age classification.

3. Assessed and confirmed the reasonableness in estimation of net realizable value and checked the related supporting documents.
4. Tested the reasonableness in accrual of the allowance for inventory valuation loss.

Cut-off of revenue recognition

Description

Refer to Note 4(28) and Note 6(19) of the consolidated financial statements for accounting policies on revenue recognition and the detail of revenue information.

Gallant Precision Machining Co., Ltd. and its subsidiaries are primarily engaged in the manufacture and sale of flat panel display testing equipment, semiconductor assembly equipment, intelligent automated equipment, and related parts. Main revenue recognition is based on customer's confirmation for acceptance. Since the transferred timing of the risks and rewards of goods ownerships are subject to judgment and the result could affect sales revenue significantly in the consolidated financial statement. Thus, revenue recognition has been identified a key audit matter.

How our audit addressed the matter

Our audit procedures performed included the following:

1. Assessed the appropriateness of the policy of sales revenue recognition.
2. Assessed and tested the design and operating effectiveness of the key controls over sales revenue recognition.
3. Sampled and tested the sales transactions included check customer purchase orders, evidence of customer's confirmation for acceptance, verified whether had met criteria of the contract and considered the reliability of collection for the timing of revenue recognition.
4. Performed cut-off test on sales transactions for a specific time prior to and after the balance sheet date.

Other matter - Reference to the audits of other independent auditors

We did not audit the financial statements of certain consolidated subsidiaries. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements was based solely on the audit reports of the other independent accountants. The balance of investment accounted for under equity method was NT\$63,780 thousand and NT\$27,337 thousand,

constituting 1% and 0.42% of consolidated total assets as of December 31, 2019 and 2018, respectively, and the share of profit (loss) of associates and joint ventures accounted for under equity method was NT(\$9,070) thousand and NT(\$39,424) thousand, constituting (4.05%) and (10.43%) of consolidated total comprehensive income for the years ended December 31, 2019 and 2018, respectively.

Other matter - Parent company only financial statements

We have audited and expressed an unqualified opinion on the parent company only financial statements of Gallant Precision Machining Co., Ltd. as of 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 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, 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.

Independent Accountant’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 group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our 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.

PricewaterhouseCoopers, Taiwan
March 24, 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.

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 929,712	14	\$ 1,293,799	20
1110	Financial assets at fair value through profit or loss - current	6(2)	120,353	2	278,730	4
1136	Financial assets at amortized cost - current	6(4) and 8	826,942	13	860,861	13
1150	Notes receivable, net	6(5)	48,652	1	44,893	1
1170	Accounts receivable, net	6(5)	2,338,746	36	1,787,401	27
1200	Other receivables		11,446	-	15,499	-
1210	Other receivables to related parties	7	40,179	1	-	-
130X	Inventories, net	6(6)	938,235	14	1,222,843	19
1410	Prepayments		38,745	1	39,883	1
1470	Other current assets		11,577	-	12,123	-
11XX	Current Assets		<u>5,304,587</u>	<u>82</u>	<u>5,556,032</u>	<u>85</u>
Non-current assets						
1517	Financial assets at fair value through other comprehensive income - non-current	6(3)	103,462	2	125,024	2
1535	Financial assets at amortized cost - non-current	6(4) and 8	22,227	-	26,605	-
1550	Investments accounted for using equity method	6(7)	63,780	1	27,337	1
1600	Property, plant and equipment, net	6(8) and 8	588,628	9	622,497	10
1755	Right-of-use assets	6(9)	244,535	4	-	-
1780	Intangible assets, net		25,692	-	65,961	1
1840	Deferred income tax assets	6(25)	95,031	2	90,642	1
1900	Other non-current assets		5,918	-	7,098	-
15XX	Non-current assets		<u>1,149,273</u>	<u>18</u>	<u>965,164</u>	<u>15</u>
1XXX	Total assets		<u>\$ 6,453,860</u>	<u>100</u>	<u>\$ 6,521,196</u>	<u>100</u>

(Continued)

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2100	Short-term loans	6(10)	\$ 1,118,987	17	\$ 735,121	11
2130	Contract liabilities-current	6(19)	144,695	2	59,219	1
2170	Accounts payable	6(11)	968,510	15	1,562,542	24
2180	Accounts payable - related parties	7	27,550	1	8,643	-
2200	Other payables	6(12)	321,108	5	394,664	6
2230	Current income tax liabilities	6(25)	38,597	1	38,514	-
2250	Provisions for liabilities-current		143,885	2	187,448	3
2280	Lease liabilities-current		16,864	-	-	-
2300	Other current liabilities	6(13)	27,699	-	41,376	1
21XX	Current Liabilities		<u>2,807,895</u>	<u>43</u>	<u>3,027,527</u>	<u>46</u>
Non-current liabilities						
2527	Contract liabilities-non-current	6(19)	-	-	9,702	-
2540	Long-term loans	6(13)	453,472	7	473,439	8
2570	Deferred income tax liabilities	6(25)	69,632	1	69,516	1
2580	Lease liabilities-non-current		229,617	4	-	-
2600	Other non-current liabilities		72,808	1	80,481	1
25XX	Non-current liabilities		<u>825,529</u>	<u>13</u>	<u>633,138</u>	<u>10</u>
2XXX	Total Liabilities		<u>3,633,424</u>	<u>56</u>	<u>3,660,665</u>	<u>56</u>
Equity attributable to owners of parent company						
Share capital						
3110	Share capital-common stock	6(15)	1,651,361	26	1,651,361	25
Capital surplus						
3200	Capital surplus	6(16)	199,091	3	199,091	3
Retained earnings						
3310	Legal reserve	6(17)	123,722	2	86,712	1
3320	Special reserve		132,987	2	132,987	2
3350	Unappropriated retained earnings		375,897	6	379,946	6
Other equity interest						
3400	Other equity interest	6(18)	(96,405)	(2)	(32,471)	-
31XX	Equity attributable to owners of the parent company		<u>2,386,653</u>	<u>37</u>	<u>2,417,626</u>	<u>37</u>
36XX	Non-controlling interest		<u>433,783</u>	<u>7</u>	<u>442,905</u>	<u>7</u>
3XXX	Total equity		<u>2,820,436</u>	<u>44</u>	<u>2,860,531</u>	<u>44</u>
Contingent liabilities and unrecognised contract commitments						
3X2X	Total liabilities and equity		<u>\$ 6,453,860</u>	<u>100</u>	<u>\$ 6,521,196</u>	<u>100</u>

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

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

				Years ended December 31			
				2019		2018	
Items	Notes	AMOUNT	%	AMOUNT	%		
4000	Operating revenue	\$ 4,236,015	100	\$ 4,873,153	100		
5000	Operating costs	(3,005,394)	(71)	(3,586,821)	(74)		
5900	Net operating margin	<u>1,230,621</u>	<u>29</u>	<u>1,286,332</u>	<u>26</u>		
	Operating expenses						
6100	Selling expenses	(183,134)	(4)	(186,408)	(3)		
6200	General and administrative expenses	(309,116)	(7)	(382,662)	(8)		
6300	Research and development expenses	(307,787)	(7)	(337,534)	(7)		
6450	Impairment loss (gain)	(71,458)	(2)	53,499	1		
6000	Total operating expenses	<u>(871,495)</u>	<u>(20)</u>	<u>(853,105)</u>	<u>(17)</u>		
6900	Operating profit	<u>359,126</u>	<u>9</u>	<u>433,227</u>	<u>9</u>		
	Non-operating income and expenses						
7010	Other income	59,998	1	81,097	2		
7020	Other gains and losses	(13,600)	-	40,033	1		
7050	Finance costs	(36,205)	(1)	(22,860)	(1)		
7060	Share of profit of associates and joint ventures accounted for under equity method	(9,070)	-	(39,424)	(1)		
7000	Total non-operating income and expenses	<u>1,123</u>	<u>-</u>	<u>58,846</u>	<u>1</u>		
7900	Profit before tax	<u>360,249</u>	<u>9</u>	<u>492,073</u>	<u>10</u>		
7950	Income tax expense	(70,343)	(2)	(85,806)	(2)		
8200	Profit for the year	<u>\$ 289,906</u>	<u>7</u>	<u>\$ 406,267</u>	<u>8</u>		
	Other comprehensive income for the year						
	Items that will not be reclassified subsequently to profit or loss:						
8311	Loss on remeasurements of defined benefit plan	(\$ 1,520)	-	(\$ 3,131)	-		
8316	Unrealized gain on investments in equity instruments at fair value through other comprehensive income	(21,562)	(1)	9,976	-		
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>4,277</u>	<u>-</u>	<u>(11,541)</u>	<u>-</u>		
8310	Items that will not be reclassified subsequently to profit or loss:	<u>(18,805)</u>	<u>(1)</u>	<u>(4,696)</u>	<u>-</u>		
	Items that may be reclassified subsequently to profit or loss:						
8361	Cumulative translation differences of foreign operations	(47,316)	(1)	(23,698)	-		
8360	Summary of Components of other comprehensive income that will be reclassified to profit or loss	<u>(47,316)</u>	<u>(1)</u>	<u>(23,698)</u>	<u>-</u>		
8300	Other comprehensive (loss) income for the year	<u>(\$ 66,121)</u>	<u>(2)</u>	<u>(\$ 28,394)</u>	<u>-</u>		
8500	Total comprehensive income for the year	<u>\$ 223,785</u>	<u>5</u>	<u>\$ 377,873</u>	<u>8</u>		
	Profit attributable to:						
8610	Equity holders of the parent company	\$ 249,158	6	\$ 370,105	7		
8620	Non-controlling interest	40,748	1	36,162	1		
	Profit for the year	<u>\$ 289,906</u>	<u>7</u>	<u>\$ 406,267</u>	<u>8</u>		
	Total comprehensive income attributable to:						
8710	Equity holders of the parent company	\$ 183,704	4	\$ 345,936	7		
8720	Non-controlling interest	40,081	1	31,937	1		
	Total comprehensive income for the year	<u>\$ 223,785</u>	<u>5</u>	<u>\$ 377,873</u>	<u>8</u>		
	Basic earnings per share						
9750	Profit for the year	<u>\$</u>	<u>1.51</u>	<u>\$</u>	<u>2.24</u>		
	Diluted earnings per share						
9850	Profit for the year	<u>\$</u>	<u>1.49</u>	<u>\$</u>	<u>2.20</u>		

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

GALLANT PRECISION MACHINING CO., LTD. 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													
Notes	Retained Earnings					Other Equity Interest					Total	Non-controlling interest	Total equity
	Share capital-common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Unrealized gain(loss) on fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets					
For the year ended December 31, 2018													
	\$ 1,651,361	\$ 186,765	\$ 66,921	\$ 178,169	\$ 197,905	(\$ 45,187)	\$ -	(\$ 17,892)	\$ 2,218,042	\$ 322,665	\$ 2,540,707		
6(18)	-	-	-	-	5,032	-	19,364	17,892	42,288	7,388	49,676		
	<u>1,651,361</u>	<u>186,765</u>	<u>66,921</u>	<u>178,169</u>	<u>202,937</u>	<u>(45,187)</u>	<u>19,364</u>	<u>-</u>	<u>2,260,330</u>	<u>330,053</u>	<u>2,590,383</u>		
	-	-	-	-	370,105	-	-	-	370,105	36,162	406,267		
6(18)	-	-	-	-	(3,131)	(19,099)	(1,939)	-	(24,169)	(4,225)	(28,394)		
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>366,974</u>	<u>(19,099)</u>	<u>(1,939)</u>	<u>-</u>	<u>345,936</u>	<u>31,937</u>	<u>377,873</u>		
Distribution of 2017 earnings:													
	-	-	19,791	-	(19,791)	-	-	-	-	-	-		
	-	-	-	(45,182)	45,182	-	-	-	-	-	-		
	-	-	-	-	(200,966)	-	-	-	(200,966)	-	(200,966)		
Disposal of investments in equity instruments at fair value through other comprehensive income													
	-	-	-	-	(14,390)	-	14,390	-	-	-	-		
6(27)	-	12,326	-	-	-	-	-	-	12,326	-	12,326		
	-	-	-	-	-	-	-	-	-	(28,637)	(28,637)		
	-	-	-	-	-	-	-	-	-	109,552	109,552		
	<u>\$ 1,651,361</u>	<u>\$ 199,091</u>	<u>\$ 86,712</u>	<u>\$ 132,987</u>	<u>\$ 379,946</u>	<u>(\$ 64,286)</u>	<u>\$ 31,815</u>	<u>\$ -</u>	<u>\$ 2,417,626</u>	<u>\$ 442,905</u>	<u>\$ 2,860,531</u>		
For the year ended December 31, 2019													
	\$ 1,651,361	\$ 199,091	\$ 86,712	\$ 132,987	\$ 379,946	(\$ 64,286)	\$ 31,815	\$ -	\$ 2,417,626	\$ 442,905	\$ 2,860,531		
	-	-	-	-	249,158	-	-	-	249,158	40,748	289,906		
6(18)	-	-	-	-	(1,520)	(35,414)	(28,520)	-	(65,454)	(667)	(66,121)		
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247,638</u>	<u>(35,414)</u>	<u>(28,520)</u>	<u>-</u>	<u>183,704</u>	<u>40,081</u>	<u>223,785</u>		
Distribution of 2018 earnings:													
	-	-	37,010	-	(37,010)	-	-	-	-	-	-		
	-	-	-	-	(214,677)	-	-	-	(214,677)	-	(214,677)		
6(27)	-	-	-	-	-	-	-	-	-	(12,889)	(12,889)		
	-	-	-	-	-	-	-	-	-	(36,314)	(36,314)		
	<u>\$ 1,651,361</u>	<u>\$ 199,091</u>	<u>\$ 123,722</u>	<u>\$ 132,987</u>	<u>\$ 375,897</u>	<u>(\$ 99,700)</u>	<u>\$ 3,295</u>	<u>\$ -</u>	<u>\$ 2,386,653</u>	<u>\$ 433,783</u>	<u>\$ 2,820,436</u>		

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

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated profit before tax for the year		\$ 360,249	\$ 492,073
Adjustments			
Income and expenses having no effect on cash flow			
Depreciation	6(8) 6(9) (23)	47,776	31,508
Amortization	6(23)	38,062	41,792
Expected credit loss (gain)		71,458	(53,499)
Gain on financial assets or liabilities at fair value through profit or loss, net	6(21)	(1,207)	(2,307)
Interest expense	6(22)	36,205	22,860
Interest income	6(20)	(21,398)	(16,738)
Dividend income	6(20)	(2,889)	(1,868)
Share of profit of associates and joint ventures accounted for using equity method		9,070	39,424
Property, plant and equipment transferred to expenses		-	1,648
(Gain)/loss on disposal of property, plant and equipment, net	6(21)	30	85
Gain on disposal of investments accounted for using equity method	6(21)	(3,012)	-
Gain on lease modification		(6)	-
Impairment loss from non – financial assets		965	-
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss - current		159,563	(243,747)
Notes receivable		(4,357)	(7,644)
Accounts receivable		(626,326)	(189,889)
Other receivables		9,359	(3,359)
Other receivables - related parties		(40,186)	-
Inventories		280,668	285,898
Prepayments		(4,591)	14,804
Other current assets		421	1,349
Other non-current assets		78	(221)
Net changes in liabilities relating to operating activities			
Contract liabilities		75,951	(81,219)
Accounts payable		(591,294)	(69,561)
Accounts payable - related parties		20,594	4,485
Other payables		(59,447)	57,400
Provisions for liabilities		(43,308)	71
Unearned receipts		(1,559)	(2,276)
Other current liabilities		1,891	1,112
Accrued pension liabilities		(8,118)	(5,573)
Cash generated from operations		(295,358)	316,608
Interest received		15,730	12,745
Dividends received		2,592	1,870
Interest paid		(36,680)	(21,039)
Income tax paid		(69,039)	(104,392)
Net cash provided by operating activities		(382,755)	205,792

(Continued)

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Proceeds from disposal of financial assets at amortized cost		\$ 12,189	\$ 126,420
Acquisition (proceeds from disposal) of financial assets at amortized cost		-	(30,608)
Proceeds from disposal of financial assets at fair value through other comprehensive income		-	13,955
Acquisition of investments accounted for using equity method		(29,540)	-
Acquisition of property, plant and equipment	6(29)	(12,050)	(37,024)
Proceeds from disposal of property, plant and equipment		586	2,729
Acquisition of intangible assets		(2,912)	(9,540)
Refundable deposits paid (refunded)		57	(932)
Net decrease in cash due to changes in consolidated entities		(3,860)	-
Net cash provided by (used in) investing activities		(35,530)	65,000
<u>CASH FLOWS FROM FINANCING ACTIVITY</u>			
Proceeds from short-term loan	6(30)	2,749,072	1,582,891
Repayment of short-term loan	6(30)	(2,365,206)	(1,582,500)
Proceeds from long-term loan	6(30)	350,000	350,000
Repayment of long-term loan	6(30)	(383,861)	(282,607)
Guarantee deposits refunded	6(30)	(99)	(1,668)
Repayment of the principal portion of lease liabilities	6(30)	(23,869)	-
Cash dividends paid		(250,991)	(229,603)
Decrease in non-controlling interests		-	109,552
Net cash provided by (used in) financing activities		75,046	(53,935)
Effect of fluctuations in exchange rate		(20,848)	5,143
Net increase (decrease) in cash and cash equivalents		(364,087)	222,000
Cash and cash equivalents at beginning of year	6(1)	1,293,799	1,071,799
Cash and cash equivalents at end of year	6(1)	\$ 929,712	\$ 1,293,799

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

GALLANT PRECISION MACHINING CO., LTD. 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 ORGANIZATION

Gallant Precision Machining Co., Ltd. (the “Company”).

The Company was incorporated on December 22, 1978. The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the design, manufacture and sale of molds and machinery, metal parts and mold parts, stamping parts and die-cast parts, and automated manufacturing systems and their unit equipment, as well as the management and investment in the relevant business.

The Company’s stock was listed on the Taipei Exchange (formerly named GreTai Securities Market), effective from February, 1998.

The Company merged with Syntran Co., Ltd. (the “Syntran Company”) on August 3, 2007 (merger effective date). The Company was a surviving company and Syntran Company was a dissolved company. Syntran Company was incorporated in November 1994, mainly engaged in the research, development, manufacture and sale of DWDM automatic optical testing machines, DWDM module packaging machines, digital safety monitoring systems and nano functional powder and films.

The special shareholders' meeting of the Company resolved to spin-off its semiconductor business on December 15, 2010 and the GreTai Securities Market approved the spin-off and the Company’s stock listed on January 13, 2011. The Company transferred its semiconductor business and related investment to the Company's subsidiary – Gallant Micro. Machining Co., Ltd. on the spin-off effective day March 1, 2011. The equity interest in Gallant Micro. Machining Co., Ltd. held by the Company as of December 31, 2019 was 57.19%.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 24, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRS 23, 'Uncertainty over Income Tax Treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

- A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by \$267,264 and increased 'lease liability' by \$267,264 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:
 - a. 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.
 - b. The use of single discount rate to a portfolio of leases with reasonably similar characteristics.
 - c. The accounting for operating leases whose period will end before December 31, 2019 as shortterm lease and accordingly, rent expense of \$24,538 was recognized in 2019.
 - d. The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
 - e. 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 incremental borrowing

interest rate which ranging from 1.31% to 5%.

- E. The Group recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed under IAS 17 as of December 31, 2018	\$ 83,499
Add/Less: Adjustments as a result of a different treatment of extension and termination options	<u>237,853</u>
Total lease contracts amount recognized as lease liabilities under IFRS 16 as of January 1, 2019	<u>\$ 321,352</u>
The range of incremental borrowing interest rate at the date of initial application	<u>1.31%~5%</u>
Lease liabilities recognized as of January 1, 2019 under IFRS16	<u>\$ 267,264</u>

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) and IFRS 7 “Financial Instruments: Disclosures” - Interest Rate Benchmark Reform	January 1, 2020

The above standards and interpretations have no significant impact to the Group’s financial condition and operating result 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 endorsed by the FSC effective as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance Contracts'	January 1, 2021

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

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 “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 FSC (collectively referred herein as the “IFRSs”) .

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets at fair value through other comprehensive income.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment 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 unrealized 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 recognized directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

<u>Name of Investor</u>	<u>Name of subsidiary</u>	<u>Main Business Activities</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>December 31, 2019</u>	<u>December 31, 2018</u>	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Manufacturing and selling of semiconductor related equipment and parts	57.19	57.19	Note A
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd. (the "GRC")	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	100	100	
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.(the GPM(BVI))	Investing in Gallant Precision Machinery (Xiamen) Co., Ltd.	100	100	

<u>Name of Investor</u>	<u>Name of subsidiary</u>	<u>Main Business Activities</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>December 31, 2019</u>	<u>December 31, 2018</u>	
Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Marketing and selling of process equipment of LCD and related parts.	100	100	
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd. (the "CZE")	Investing in Gallant Technology (Shenzhen) Co., Ltd.	100	100	
Gallant Micro Machining Co., Ltd.	King Mechatronics Co., Ltd. (the "KMC")	Investing in Gallant Micro Machining (Suzhou) Co., Ltd.	100	100	
Gallant Micro Machining Co., Ltd.	Gallant Micro Machining (Malaysia) Sdn. Bhd. (the "GMMM")	Engaged in the import and export and trading business of semiconductor substrate machines and related parts	100	100	
GRC	Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	
KMC	Gallant Micro Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	100	100	
GPM(BVI)	Gallant Precision Machinery (Xiamen) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	
Gallant Precision Machinery (Xiamen) Co., Ltd.	Gallant Biotech (Suzhou) Co., Ltd.	Engaged in technology development, consulting, promotion and transfer in biotechnology industry, as well as the agency service of product and technology and import and export business.	29.14	51	Note B
CZE	Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	100	100	
Gallant Precision Industries (Suzhou) Co., Ltd.	Gallant International Trading Co., Ltd.	Engaged in selling of mechanical equipment	100	100	
Gallant Precision Industries (Suzhou) Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	60	60	
Gallant International Trading Co., Ltd.	Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	100	100	

Note1: The change of equity interest are disclosed in note 6(27).

Note2: As the Group has lost control of the subsidiary in the first quarter of 2019, the investment was accounted using equity method after control was lost.

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:

As of December 31, 2019 and 2018, the non-controlling interest amounted to \$433,783 and \$442,905, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest				Description
		December 31, 2019		December 31, 2018		
		Amount	Ownership (%)	Amount	Ownership (%)	
Gallant Micro Machining Co., Ltd.	Taiwan	\$392,109	42.81	\$392,346	42.81	

Summarised financial information of the subsidiaries:

Balance sheets

	Gallant Micro Machining Co., Ltd. and its subsidiary	
	December 31, 2019	December 31, 2018
Current assets	\$ 1,226,187	\$ 1,293,745
Non-current assets	364,009	306,106
Current liabilities	(506,746)	(521,874)
Non-current liabilities	(167,522)	(161,495)
Total net assets	<u>\$ 915,928</u>	<u>\$ 916,482</u>

Statements of comprehensive income

	Gallant Micro Machining Co., Ltd. and its subsidiary	
	Year ended December 31, 2019	Year ended December 31, 2018
Revenue	\$ 758,006	\$ 922,261
Profit before income tax	\$ 106,877	\$ 122,094
Income tax expense	(21,448)	(34,608)
Profit for the year from continuing operations	85,429	87,486
Loss from discontinued operations	-	-
Profit for the year	85,429	87,486
Other comprehensive income, net of tax	(1,154)	(12,443)
Total comprehensive income for the year	<u>\$ 84,275</u>	<u>\$ 75,043</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 35,810</u>	<u>\$ 32,126</u>
Dividends paid to non-controlling interest	<u>\$ 36,314</u>	<u>\$ 28,637</u>

Statements of cash flows

	Gallant Micro. Machining Co., Ltd. and its subsidiary	
	Year ended December 31, 2019	Year ended December 31, 2018
Net cash provided by (used in) operating activities	\$ 185,839	\$ 81,889
Net cash provided by (used in) investing activities	(71,575)	(15,589)
Net cash provided by (used in) financing activities	(72,943)	(47,358)
Effect of exchange rates on cash and cash equivalents	(13,973)	(6,494)
Increase (decrease) in cash and cash equivalents	27,348	12,448
Cash and cash equivalents, beginning of year	507,972	495,524
Cash and cash equivalents, end of year	<u>\$ 535,320</u>	<u>\$ 507,972</u>

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency 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 recognized 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 re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized 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 recognized 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 recognized in other comprehensive income. However, non-monetary 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

The operating results and financial position of all the group entities, associates and jointly controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(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 realized, 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 realized 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 settle within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settle 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) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. The Group's related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(7) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified

from equity to profit or loss.

(8) Financial assets at amortised cost

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

(9) Accounts and notes receivable

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

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and 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.

(11) Derecognition of financial assets

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

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, 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 realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are

reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.
- G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other 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 financial 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	10 ~ 50 years
Machinery and equipment	3 ~ 10 years
Furniture and fixtures	3~ 10 years
Other equipment	5 ~ 15 years

(15) Leased assets/ leases (lessee)

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

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

Effective from 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 the following:

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 following:
- The amount of the initial measurement of lease liability;
 - Any initial direct costs incurred by the lessee;

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.

(17) Leased assets/ operating leases (lessee)

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

(18) Intangible assets

A. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 1 to 3 years.

B. Other intangible assets

Other intangible assets mainly technical royalties, are amortized on a straight-line basis over its estimated useful life of 3 years.

(19) 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 recognized 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 amortized historical cost would have been if the impairment had not been recognized.

(20) Borrowings

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

(21) 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.

(22) Derecognition of financial liabilities

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

(23) Provisions

Provisions (including warranties, after-sales service) are recognized 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 recognized as interest expense. Provisions are not recognized for future operating losses.

(24) 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 recognized as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i . Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the

Group uses interest rates of government bonds (at the balance sheet date) instead.

ii . Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

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 recognizes 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 recognized 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.

(25) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized 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 tax is recognized, 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 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 tax is provided on temporary differences arising on investments in subsidiaries, 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 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 tax asset is realized or the deferred tax liability is settled.

- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized 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 recognized amounts and there is an intention to settle on a net basis or realize 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 realize the asset and settle the liability simultaneously.

(26) 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.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company'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.

(28) Revenue recognition

A. Sales of goods

- (a) The Group provides manufacturing and sales of Flat display manufacturing inspection equipment, Semiconductor packaging equipment, Intelligent automation equipment and parts products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, 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 are recognised based on the price specified in the contract.

(c) 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. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

B. Sales of services

The Group provides technical services. Revenue from providing services is recognised in the accounting period in which the services are rendered. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

(29) Government grants

Government grants are recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate.

(30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chairmen of Board that makes strategic decisions.

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

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

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable 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 realizable 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 \$938,235.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 262	\$ 588
Checking accounts	26	26
Demand deposits	929,424	1,293,185
Total	<u>\$ 929,712</u>	<u>\$ 1,293,799</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. Cash and cash equivalents pledged to Customs and others as collateral were classified as financial assets at amortised cost-current and financial assets at amortised cost-non-current. Please refer to note 8.

(2) Financial assets / liabilities at fair value through profit or loss

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Financial assets mandatorily at fair value through profit or loss		
Beneficiary certificates	\$ 120,023	\$ 277,915
Valuation adjustment	330	815
	<u>\$ 120,353</u>	<u>\$ 278,730</u>

A. The Group recognized net gain of \$1,207 and \$2,307 on financial assets and liabilities designated as at fair value through profit or loss for the years ended 2019 and 2018, respectively.

B. The Group has no financial assets at fair value through profit or loss pledged to others.

C. Information relating to credit risk is provided in Note 12(2).

(3) Financial Assets at Fair Value Through Other Comprehensive Income

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current items:		
Equity instruments		
Non-Listed and non-otc stocks	\$ 73,907	\$ 68,875
Valuation adjustment	29,555	56,149
Total	<u>\$ 103,462</u>	<u>\$ 125,024</u>

A. The Group has elected to classify investments that are considered to be strategic investments in Shinyu Light Co., Ltd., PHOENIX & COPRORATION and POWER EVER ENTERPRISES LIMITED as financial assets at fair value through other comprehensive income. As at December 31, 2019 and 2018, the fair value of such investments amounted to \$103,462 and \$125,024, respectively.

B. The Group sold \$13,955 of Unicon Optical Co., Ltd., investments at fair value and resulted in cumulative losses (\$14,390) on disposal for the year ended December 31, 2018.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
<u>Equity instruments at fair value through other comprehensive income:</u>		
Fair value change recognised in other comprehensive income	<u>(\$ 28,520)</u>	<u>\$ 1,939)</u>
Cumulative gains (losses) reclassified to retained earnings due to derecognition	<u>\$ -</u>	<u>\$ 14,390</u>

D. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$103,462 and \$125,024, respectively.

E. Information relating to credit risk is provided in Note 12(2).

(4) Financial assets at amortized cost

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Time deposits	\$ 826,942	\$ 860,861
Non-current items:		
Time deposits	22,227	26,605
Total	<u>\$ 849,169</u>	<u>\$ 887,466</u>

A. The Group transacts with financial institutions with high credit quality.

B. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.

C. Information relating to credit risk is provided in Note 12(2).

(5) Notes and accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable	\$ 48,652	\$ 44,893
Accounts receivable	\$ 2,502,954	\$ 1,911,680
Less: allowance for bad debts	(164,208)	(124,279)
	<u>\$ 2,338,746</u>	<u>\$ 1,787,401</u>

A. The ageing analysis of notes and accounts receivable is as follows::

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Without past due	\$ 2,040,160	\$ 48,652	\$ 1,577,280	\$ 44,893
Up to 30 days	129,601	-	33,186	-
31 to 90 days	122,093	-	120,211	-
91 to 180 days	103,759	-	44,389	-
Over 181 days	107,341	-	136,614	-
	<u>\$ 2,502,954</u>	<u>\$ 48,652</u>	<u>\$ 1,911,680</u>	<u>\$ 44,893</u>

The above ageing analysis was based on past due date.

B. The Group does not hold any collateral as security.

C. Information relating to credit risk is provided in Note 12(2).

(6) Inventories

	<u>December 31, 2019</u>		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 86,531	(\$ 16,412)	\$ 70,119
Work in progress	859,667	(113,052)	746,615
Finished goods	123,719	(18,804)	104,915
Inventory in transit	16,586	-	16,586
Total	<u>\$ 1,086,503</u>	<u>(\$ 148,268)</u>	<u>\$ 938,235</u>
	<u>December 31, 2018</u>		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 130,299	(\$ 13,766)	\$ 116,533
Work in progress	1,189,800	(145,029)	1,044,771
Finished goods	70,128	(16,722)	53,406
Inventory in transit	8,133	-	8,133
Total	<u>\$ 1,398,360</u>	<u>(\$ 175,517)</u>	<u>\$ 1,222,843</u>

The cost of inventories recognized as expense for the year:

	Year ended December 31, 2019	Year ended December 31, 2018
Cost of goods sold	\$ 3,026,070	\$ 3,493,537
(Gain on reversal of decline) decline in market value	(27,249)	92,439
Loss on disposal inventory	6,573	845
	<u>\$ 3,005,394</u>	<u>\$ 3,586,821</u>

The Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of disposal and sold inventory.

(7) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Associates		
Gallant Biotech (Suzhou) Co., Ltd.	\$ 8,189	\$ -
Utron Technologies Corp	25,443	-
Sunengine Co., Ltd.	30,148	27,337
Total	<u>\$ 63,780</u>	<u>\$ 27,337</u>

A. In the first quarter of 2019, Gallant Biotech (Suzhou) Co., Ltd. increased capital by issue new shares, but the Group did not acquire shares. As a result, the investment was accounted using equity method after control was lost.

B. Associates

The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results:

As of December 31, 2019, the carrying amount of the Group's individually immaterial associates amounted to \$63,780.

	Year ended December 31, 2019	Year ended December 31, 2018
Profit for the period from continuing operations	(\$ 47,105)	(\$ 117,917)
Profit or loss for the period from discontinued operations	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>(\$ 47,105)</u>	<u>(\$ 117,917)</u>

(8) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Leased assets	Others	Construction in progress and equipment under installation	Total
At January 1, 2019								
Cost	\$ 39,130	\$ 598,415	\$ 122,736	\$ 39,940	\$ 66,694	\$ 43,664	\$ 6,029	\$ 916,608
Accumulated depreciation and impairment	- (136,882)	(90,963)	(21,323)	(16,068)	(28,875)	- (294,111)		
	<u>\$ 39,130</u>	<u>\$ 461,533</u>	<u>\$ 31,773</u>	<u>\$ 18,617</u>	<u>\$ 50,626</u>	<u>\$ 14,789</u>	<u>\$ 6,029</u>	<u>\$ 622,497</u>
2019								
Opening net book amount as at January 1	\$ 39,130	\$ 461,533	\$ 31,773	\$ 18,617	\$ 50,626	\$ 14,789	\$ 6,029	\$ 622,497
Additions	-	82	774	3,879	-	2,160	-	6,895
Disposals	-	- (1,738)	(1,707)	- (1,140)	(6,029)	(10,614)		
Depreciation charge	- (12,262)	(5,061)	(6,408)	(1,300)	(4,265)	- (29,296)		
Net exchange differences	- (15)	(606)	(162)	- (71)	(854)			
Closing net book amount as at December 31	<u>\$ 39,130</u>	<u>\$ 449,338</u>	<u>\$ 25,142</u>	<u>\$ 14,219</u>	<u>\$ 49,326</u>	<u>\$ 11,473</u>	<u>\$ -</u>	<u>\$ 588,628</u>
At December, 31, 2019								
Cost	\$ 39,130	\$ 593,791	\$ 116,026	\$ 33,504	\$ 65,682	\$ 28,964	\$ -	\$ 877,097
Accumulated depreciation and impairment	- (144,453)	(90,884)	(19,285)	(16,356)	(17,491)	- (288,469)		
	<u>\$ 39,130</u>	<u>\$ 449,338</u>	<u>\$ 25,142</u>	<u>\$ 14,219</u>	<u>\$ 49,326</u>	<u>\$ 11,473</u>	<u>\$ -</u>	<u>\$ 588,628</u>

	Land	Buildings	Machinery and equipment	Office equipment	Leased assets	Others	Construction in progress and equipment under installation	Total
At January 1, 2018								
Cost	\$ 39,130	\$ 538,222	\$ 105,260	\$ 21,238	\$ 116,753	\$ 65,825	\$ 6,877	\$ 893,305
Accumulated depreciation and impairment	-	(113,468)	(80,865)	(10,838)	(25,590)	(37,885)	-	(268,646)
	<u>\$ 39,130</u>	<u>\$ 424,754</u>	<u>\$ 24,395</u>	<u>\$ 10,400</u>	<u>\$ 91,163</u>	<u>\$ 27,940</u>	<u>\$ 6,877</u>	<u>\$ 624,659</u>
2018								
Opening net book amount as at January 1	\$ 39,130	\$ 424,754	\$ 24,395	\$ 10,400	\$ 91,163	\$ 27,940	\$ 6,877	\$ 624,659
Additions	-	1,714	8,032	10,608	-	6,772	7,462	34,588
Disposals	-	-	(2,500)	(2,781)	-	(1,292)	-	(6,573)
Reclassifications	-	47,736	7,176	7,128	(39,328)	(12,410)	(8,191)	2,111
Depreciation charge	-	(12,680)	(4,882)	(6,597)	(1,209)	(6,140)	-	(31,508)
Net exchange differences	-	9	(448)	(141)	-	(81)	(119)	(780)
Closing net book amount as at December 31	<u>\$ 39,130</u>	<u>\$ 461,533</u>	<u>\$ 31,773</u>	<u>\$ 18,617</u>	<u>\$ 50,626</u>	<u>\$ 14,789</u>	<u>\$ 6,029</u>	<u>\$ 622,497</u>
At December, 31, 2018								
Cost	\$ 39,130	\$ 598,415	\$ 122,736	\$ 39,940	\$ 66,694	\$ 43,664	\$ 6,029	\$ 916,608
Accumulated depreciation and impairment	-	(136,882)	(90,963)	(21,323)	(16,068)	(28,875)	-	(294,111)
	<u>\$ 39,130</u>	<u>\$ 461,533</u>	<u>\$ 31,773</u>	<u>\$ 18,617</u>	<u>\$ 50,626</u>	<u>\$ 14,789</u>	<u>\$ 6,029</u>	<u>\$ 622,497</u>

- A. Amount of borrowing costs capitalized as part of property, plant and equipment were \$0 and \$0 for the years ended December 31, 2019 and 2018, respectively.
- B. The significant components of buildings include main plants improvement and structure, which are depreciated over 10 to 50 years.
- C. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.
- D. The above property, plant and equipment of the Group were for their own used.

(9) Leasing arrangements – lessee

Effective 2019

- A. The Group leases various assets including land, buildings, business vehicles, multifunction printers. Rental contracts are typically made for periods of 1 to 38 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.
- B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>December 31, 2019</u>	<u>Year ended December 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Land	\$ 214,408	\$ 6,022
Buildings	29,875	12,085
Office equipment (multifunction printers)	252	238
Transportation equipment (business vehicles)	-	135
	<u>\$ 244,535</u>	<u>\$ 18,480</u>

C. For the years ended December 31, 2019, the amount of addition for leases was \$0.

D. The information on income and expense accounts relating to lease contracts is as follows:

	<u>Year ended December 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 5,119
Expense on short-term lease contracts	13,531
Expense on leases of low-value assets	122

E. For the years ended December 31, 2019, the Group's total cash outflow for leases was \$42,641.

F. Extension and termination options

In determining the lease term, the Group takes into consideration all facts and circumstances that create an economic incentive to exercise an extension option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

(10) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	\$ 1,118,987	1.08%~2.90%	None
<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	\$ 735,121	1.20%~3.83%	None

(11) Accounts payable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable	\$ 848,802	\$ 1,398,090
Accrued accounts payable	119,708	164,452
	<u>\$ 968,510</u>	<u>\$ 1,562,542</u>

(12) Others accounts payable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accrued salaries	\$ 173,863	\$ 196,555
Accrued employees' bonuses and directors' remuneration	82,939	98,758
Payables on equipment - Fixed assets	1,084	6,239
Payables on equipment - Intangible assets	277	1,557
Others	62,945	91,555
	<u>\$ 321,108</u>	<u>\$ 394,664</u>

(13) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u> <u>range</u>	<u>Collateral</u>	<u>December 31, 2019</u>
Mortgage borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.22%	Note A	\$ 23,206
Unsecured borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.32%	None	6,197
Mortgage borrowings	Borrowing period is from September 27, 2019 to September 27, 2021; interest is repayable monthly and principal is repayable in September, 2021.	1.36%	Note A Note B	350,000
Mortgage borrowings	Borrowing period is from June 14, 2017 to June 14, 2032; interest is repayable monthly and principal is repayable monthly through June, 2018 to June, 2032.	1.45%	Note A	76,786
Mortgage borrowings	Borrowing period is from July 13, 2017 to July 13, 2022; The principal is repayable every 6 months in 8 installments.	1.20%	Note A	17,250
				<u>473,439</u>
Less: current portion				(19,967)
				<u>\$ 453,472</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2018</u>
Mortgage borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.22%	Note A	\$ 30,025
Unsecured borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.32%	None	8,013
Mortgage borrowings	Borrowing period is from September 25, 2018 to September 24, 2020; interest is repayable monthly and principal is repayable in September, 2020.	1.40%	Note A Note C	350,000
Unsecured borrowings	Borrowing period is from August 14, 2017 to August 14, 2019; interest is repayable monthly and principal is repayable through July, 2018 to July, 2019.	1.60%	None	13,333
Mortgage borrowings	Borrowing period is from June 14, 2017 to June 14, 2032; interest is repayable monthly and principal is repayable monthly through June, 2018 to June, 2032.	1.45%	Note A	82,929
Mortgage borrowings	Borrowing period is from July 13, 2017 to July 13, 2022; The principal is repayable every 6 months in 8 installments.	1.20%	Note A	23,000
				<u>507,300</u>
Less: current portion				(<u>33,861</u>)
				<u>\$ 473,439</u>

Note A: Details of long-term borrowings pledged as collateral are provided in Note 8.

Note B:

- (a) In order to repay the existing financial liabilities and enrich the medium-term working capital, the Company entered into a comprehensive credit contract amounting to \$800 million with China Trust Commercial Bank on September 27, 2019. The Company also applied for a drawdown of \$350,000 from the credit line granted by China Trust Commercial Bank in September, 2019.
- (b) According to the notice of credit between the Company and China Trust Commercial Bank, the financial ratios in the Company's annual and semi-annual consolidated financial statements should be maintained as follows:
 - i . Current ratio: the ratio of current assets divided by current liabilities shall be maintained above 120% (inclusive).
 - ii . Financial gearing ratio: the total of short-term borrowings, corporate bonds due within one year, mid and long-term borrowings due within one year and long-term borrowings, divided by the tangible net worth shall not exceed 60%.
 - iii. Net tangible net worth: the shareholders' equity after deducting intangible assets shall not be less than NT\$2,200,000 (inclusive).

Note C:

- (a) In order to repay the existing financial liabilities and enrich the medium-term working capital, the Company entered into a comprehensive credit contract amounting to \$800 million with China Trust Commercial Bank on September 11, 2018. The Company also applied for a drawdown of \$220,000 and \$130,000 from the credit line granted by China Trust Commercial Bank in September and October 2018. The borrowings has been repaid in September 2019.
- (b) According to the notice of credit between the Company and China Trust Commercial Bank, the financial ratios in the Company's annual and semi-annual consolidated financial statements should be maintained as follows:
- i . Current ratio: the ratio of current assets divided by current liabilities shall be maintained above 120% (inclusive).
 - ii . Gearing ratio: the ratio of total liabilities divided by tangible net worth shall not be more than 120%.
 - iii. Financial gearing ratio: the total of short-term borrowings, corporate bonds due within one year, mid and long-term borrowings due within one year and long-term borrowings, divided by the tangible net worth shall not exceed 60%.
 - iv. Net tangible net worth: the shareholders' equity after deducting intangible assets shall not be less than NT\$2,200,000 (inclusive).

(14) Pensions

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contributes monthly an amount equal to 2% and 7% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method, to the labors expected to be qualified for retirement next year, the Company and its domestic subsidiaries will make contribution for the deficit by next March.

(b) The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	(\$ 78,079)	(\$ 77,603)
Fair value of plan assets	<u>32,742</u>	<u>25,672</u>
Net defined benefit liability	<u>(\$ 45,337)</u>	<u>(\$ 51,931)</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of Plan assets	Net defined benefit liability
Year ended December 31, 2019			
Balance at January 1	(\$ 77,603)	\$ 25,672	(\$ 51,931)
Current service cost	(526)	-	(526)
Interest (expense) income	(768)	289	(479)
Past service cost	2,426	-	2,426
	<u>(76,471)</u>	<u>25,961</u>	<u>(50,510)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	784	784
Change in demographic assumptions	(434)	-	(434)
Change in financial assumptions	(1,895)	-	(1,895)
Experience adjustments	27	-	27
	<u>(2,302)</u>	<u>784</u>	<u>(1,518)</u>
Pension fund contribution	-	6,691	6,691
Paid pension	694	(694)	-
Balance at December 31	<u>(\$ 78,079)</u>	<u>\$ 32,742</u>	<u>(\$ 45,337)</u>
	Present value of defined benefit obligations	Fair value of Plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	(\$ 73,694)	\$ 19,321	(\$ 54,373)
Current service cost	(540)	-	(540)
Interest (expense) income	(912)	283	(629)
	<u>(75,146)</u>	<u>19,604</u>	<u>(55,542)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	404	404
Change in demographic Assumptions	(384)	-	(384)
Change in financial Assumptions	(1,927)	-	(1,927)
Experience adjustments	(1,225)	-	(1,225)
	<u>(3,536)</u>	<u>404</u>	<u>(3,132)</u>
Pension fund contribution	-	6,743	6,743
Paid pension	1,079	(1,079)	-
Balance at December 31	<u>(\$ 77,603)</u>	<u>\$ 25,672</u>	<u>(\$ 51,931)</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS19 paragraph 142. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.
- (e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Discount rate	0.75%	1.00%
Future salary increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2019				
Effect on present value of defined benefit obligation	(\$ 1,854)	\$ 1,932	\$ 1,903	(\$ 1,836)
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 1,941)	\$ 2,024	\$ 1,999	(\$ 1,927)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Group in the year ended December 31, 2020 amount to \$7,767.
- (h) As of December 31, 2019, the weighted average duration of that retirement plan is 9 year. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	17,214
1-2 year(s)		1,756
2-5 years		6,741
Over 5 years		57,320
	\$	<u>83,031</u>

- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries (APEX-I International Co., Ltd. and Gallant Micro. Machining Co., Ltd.) have 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 Company and its domestic subsidiaries contribute 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) Gallant Precision Industries (Suzhou) Co., Ltd., Gallant Micro. Machining (Suzhou) Co., Ltd., Gallant Precision Machinery (Xiamen) Co., Ltd., Gallant Technology (Shenzhen) Co., Ltd., Gallant Precision Intelligence Technology Co., Ltd. Gallant International Trading Co., Ltd. and Suzhou Jianmeifu Optical Co., Ltd., 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. The contribution percentage was 10% to 20%. Other than the monthly contributions, the Group has no further obligations.
- (c) Gallant-Rapid Corporation Ltd., Gallant Micro Machining (Malaysia) Sdn. Bhd. Ltd., King Mechatronics Co., Ltd., Chun-Zhun Enterprise Corporation Ltd., and Gallant Precision Machinery (BVI) Ltd. did not have a pension plan.
- (d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2019 and 2018 were \$34,564 and \$36,333, respectively.

(15) Share capital

- A. As of December 31, 2019, the Company’s authorized capital was \$2,500,000, consisting of 250,000 thousand shares of ordinary stock, and the paid-in capital was \$1,651,361 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company’s ordinary shares outstanding are as follows:

	Unit: shares in thousands	
	Year ended	Year ended
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
At January 1/At December 31	<u>165,136</u>	<u>165,136</u>

(16) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	<u>Share premium</u>	<u>Treasury share transactions</u>	<u>Difference between consideration and carrying amount of subsidiaries acquired or disposed</u>	<u>Net change in equity of associates</u>	<u>Employee stock option</u>	<u>Total</u>
At January 1, 2019 and At December 31, 2019	\$ 127,167	\$ 31,399	\$ 11,750	\$ 24,329	\$ 4,446	\$ 199,091
	<u>Share premium</u>	<u>Treasury share transactions</u>	<u>Difference between consideration and carrying amount of subsidiaries acquired or disposed</u>	<u>Net change in equity of associates</u>	<u>Employee stock option</u>	<u>Total</u>
At January 1, 2018	\$ 127,167	\$ 31,399	\$ 11,750	\$ 12,003	\$ 4,446	\$ 186,765
Changes in equity of subsidiaries accounted for under the equity method	-	-	-	12,326	-	12,326
At December 31, 2018	\$ 127,167	\$ 31,399	\$ 11,750	\$ 24,329	\$ 4,446	\$ 199,091

(17) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve and set aside a special reserve in accordance with applicable legal and regulatory requirement. Distributing the remaining amount plus prior year's retained earnings in the following order, but the ratios of the distribution of the aforementioned retained earnings and the cash dividend distribution shall be proposed by the Board of Directors based on the actual profit and capital situation of the current year, and proposed to the shareholders' meeting for resolution:

The ratio of cash dividend shall not be less than 10% of the shareholders' dividend.

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 Company's paid-in capital.

C. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land. As of the date of transition, the Company recognized \$132,987 special reserve.

D. On June 25, 2019 and June 22, 2018, respectively, the shareholders resolved that total dividends for the distribution of earnings for the year of 2018 and 2017 were as following:

	2018		2017	
	Amount	Earnings per share(In dollars)	Amount	Earnings per share(In dollars)
Legal reserve	\$ 37,010	\$ -	\$ 19,791	\$ -
Special reserve	-	-	(45,182)	-
Cash dividends	214,677	1.300	200,966	1.217
Total	<u>\$ 251,687</u>	<u>\$ 1.300</u>	<u>\$ 175,575</u>	<u>\$ 1.217</u>

E. On March 24, 2020, the Board of Directors resolved for the distribution of dividends from 2019 earnings amounting to \$247,704(\$1.5 (in dollars) per share).

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration please refer to Note 6(24).

(18) Other equity items

	Year ended December 31, 2019		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	\$ 31,815	(\$ 64,286)	(\$ 32,471)
Revaluation	(28,520)	-	(28,520)
Currency translation differences:—group	-	(35,414)	(35,414)
At December 31	<u>\$ 3,295</u>	<u>(\$ 99,700)</u>	<u>(\$ 96,405)</u>

	Year ended December 31, 2018		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	(\$ 17,892)	(\$ 45,187)	(\$ 63,079)
Effects of retrospective application			-
Revaluation	42,288	-	42,288
Revaluation transferred to retained earnings	(5,032)	-	(5,032)
Revaluation	(1,939)	-	(1,939)
Disposal transferred to retained earnings	14,390	-	14,390
Currency translation differences:—group	-	(19,099)	(19,099)
At December 31	<u>\$ 31,815</u>	<u>(\$ 64,286)</u>	<u>(\$ 32,471)</u>

(19) Operating revenue

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue from Contracts with Customers	<u>\$ 4,236,015</u>	<u>\$ 4,873,153</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

Year ended December 31, 2019	Taiwan	China	Other	Total
Total segment revenue	\$ 1,641,862	\$ 2,841,949	\$ 58,835	\$ 4,542,646
Inter-segment revenue	(282,587)	(23,964)	(80)	(306,631)
Revenue from external customer contracts	<u>\$ 1,359,275</u>	<u>\$ 2,817,985</u>	<u>\$ 58,755</u>	<u>\$ 4,236,015</u>
Timing of revenue recognition				
At a point in time	\$ 1,343,275	\$ 2,815,445	\$ 57,042	\$ 4,215,762
Over time	16,000	2,540	1,713	20,253
	<u>\$ 1,359,275</u>	<u>\$ 2,817,985</u>	<u>\$ 58,755</u>	<u>\$ 4,236,015</u>

Year ended December 31, 2018	Taiwan	China	Other	Total
Total segment revenue	\$ 2,371,641	\$ 2,741,860	\$ 130,522	\$ 5,244,023
Inter-segment revenue	(307,659)	(63,211)	-	(370,870)
Revenue from external customer contracts	<u>\$ 2,063,982</u>	<u>\$ 2,678,649</u>	<u>\$ 130,522</u>	<u>\$ 4,873,153</u>
Timing of revenue recognition				
At a point in time	\$ 2,046,837	\$ 2,626,345	\$ 128,202	\$ 4,801,384
Over time	17,145	52,304	2,320	71,769
	<u>\$ 2,063,982</u>	<u>\$ 2,678,649</u>	<u>\$ 130,522</u>	<u>\$ 4,873,153</u>

B. Contract liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Contract liabilities:		
Contract liabilities-Deposit	\$ 144,695	\$ 68,921

C. Revenue recognised that was included in the contract liability balance at the beginning of the period

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Deposit	\$ 64,211	\$ 147,451
Total	\$ 64,211	\$ 147,451

(20) Other income

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest income	\$ 21,398	\$ 16,738
Rental revenue	15,441	16,518
Government subsidy income	11,295	31,661
Dividends income	2,889	1,868
Others	8,975	14,312
	<u>\$ 59,998</u>	<u>\$ 81,097</u>

(21) Other gains and losses

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Losses on disposal of property, plant and equipment	(\$ 269)	(\$ 85)
Gains on disposal of investments	3,012	-
Net currency exchange (losses) gains	(16,579)	38,022
Net gains on financial assets and liabilities at fair value through profit or loss	1,207	2,307
Impairment loss	(965)	-
Gains arising from lease modifications	6	-
Others gains and losses	(12)	(211)
Total	<u>\$ 13,600</u>	<u>\$ 40,033</u>

(22) Finance costs

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest expense	\$ 36,205	\$ 22,860

(23) Expenses by nature

	Year ended December 31, 2019	Year ended December 31, 2018
Employee benefit expense	\$ 862,268	\$ 921,680
Depreciation charges on property, plant and equipment	\$ 47,776	\$ 31,508
Amortization charges on intangible assets	\$ 38,062	\$ 41,792

(24) Employee benefit expense

	Year ended December 31, 2019	Year ended December 31, 2018
Wages and salaries	\$ 739,260	\$ 792,646
Labour and health insurance fees	62,398	60,794
Pension costs	33,138	37,503
Other personnel expenses	27,472	30,737
	\$ 862,268	\$ 921,680

- A. In accordance with the Company's Articles of Incorporation, the Company shall distribute not less than 1% and not more than 12% of its annual profit as the employee compensation, and not more than 3% of its annual profit as the director remuneration. However, if the Company has an accumulated deficit, then it should be offset first.

Employee remuneration could be paid by cash or shares, and entitled to receive the cash or shares may include the employees of subsidiaries of the Company meeting certain specific requirements.

The term "profit" used in the first paragraph refers to the profit before tax before deducting the employee compensation and director remuneration. The distribution of employee compensation and director remuneration shall be in a board meeting that registers two-thirds of directors in attendance, and the resolution must receive support from half of participating members. The resolution should be reported to the shareholders at shareholders' meeting.

- B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at \$39,008 and \$54,418, respectively; while directors' and supervisors' remuneration was accrued at \$6,612 and \$9,567, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration for 2018 resolved by the Shareholders meeting on June 25, 2019 were \$54,418 and \$9,567, respectively, which were \$1,300 difference from those amounts recognized in the 2018 financial statements. The differences had been adjusted and recognized in the 2019 financial statements. The amount of directors' and supervisors' remuneration was in agreement with those amounts recognized in the 2018 financial statements.

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

(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax:		
Current tax on profits for the period	\$ 76,901	\$ 92,573
Tax on undistributed surplus earnings	5,365	-
Prior year income tax (over) underestimation	(11,927)	(10,226)
Total current tax	<u>70,339</u>	<u>82,347</u>
Deferred tax:		
Origination and reversal of temporary differences	4	10,091
Impact of changing in tax rate	-	(6,632)
Total deferred tax	<u>4</u>	<u>3,459</u>
Income tax expense	<u>\$ 70,343</u>	<u>\$ 85,806</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Share of other comprehensive income of associates	<u>\$ 4,277</u>	<u>(\$ 11,541)</u>

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2019	Year ended December 31, 2018
Tax calculated based on profit before tax and statutory tax rate	\$ 91,928	\$ 120,579
Expenses disallowed by tax regulation	-	(6)
Tax exempt income by tax regulation	-	434
Prior year income tax (over) underestimation	(11,927)	(10,661)
Income tax paid derived of mainland China source income	(281)	(207)
Impact of changing in tax rate	-	(6,632)
Temporary difference not recognized as deferred tax assets	(14,742)	(17,701)
Tax on undistributed earnings	5,365	-
Tax expenses	<u>\$ 70,343</u>	<u>\$ 85,806</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	Year ended December 31, 2019			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 17,623	\$ 6,907	\$ -	\$ 24,530
Inventory obsolescence and market price decline	33,118	(6,451)	-	26,667
Warranty provision	35,696	(8,242)	-	27,454
Accrued pension cost	5,564	(1,594)	-	3,970
Unrealized exchange gain	(595)	8,397	-	7,802
Unrealized gain of financial assets at fair value through other comprehensive income	-	-	3,830	3,830
Others	(764)	1,542	-	778
Subtotal	<u>90,642</u>	<u>559</u>	<u>3,830</u>	<u>95,031</u>
Deferred tax liabilities:				
Foreign investment income using equity method	(57,975)	(563)	-	(58,538)
Unrealized gain of financial assets at fair value through other comprehensive income	(11,541)	-	447	(11,094)
Subtotal	<u>(69,516)</u>	<u>(563)</u>	<u>447</u>	<u>(69,632)</u>
Total	<u>\$ 21,126</u>	<u>(\$ 4)</u>	<u>\$ 4,277</u>	<u>\$ 25,399</u>
	Year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 23,091	(\$ 5,468)	\$ -	\$ 17,623
Inventory obsolescence and market price decline	12,474	20,644	-	33,118
Warranty provision	29,087	6,609	-	35,696
Accrued pension cost	5,674	(110)	-	5,564
Unrealized exchange gain	5,911	(6,506)	-	(595)
Others	2,188	(2,952)	-	(764)
Subtotal	<u>78,425</u>	<u>12,217</u>	<u>-</u>	<u>90,642</u>
Deferred tax liabilities:				
Foreign investment income using equity method	(42,299)	(15,676)	-	(57,975)
Unrealized gain of financial assets at fair value through other comprehensive income	-	-	(11,541)	(11,541)
Subtotal	<u>(42,299)</u>	<u>(15,676)</u>	<u>(11,541)</u>	<u>(69,516)</u>
Total	<u>\$ 36,126</u>	<u>(\$ 3,459)</u>	<u>(\$ 11,541)</u>	<u>\$ 21,126</u>

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

	December 31, 2019	December 31, 2018
Deductible temporary differences	\$ 69,625	\$ 70,541

E. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

F. The amendments to the Income Tax Act were promulgated and became effective on February 7, 2018. Under the amendments, the corporate income tax rate will be raised from 17% to 20% retroactively effective from January 1, 2018. The Group has accessed the impact of the change in income tax rate.

(26) Earnings per share

	Year ended December 31, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 249,158	165,136	\$ 1.51
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	2,499	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 249,158	167,635	\$ 1.49
	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 370,105	165,136	\$ 2.24
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	2,799	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 370,105	167,935	\$ 2.20

(27) Transactions with non-controlling interest

A. The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary

Subsidiary Gallant Micro. Machining Co., Ltd. of the Group increased capital by issuing new shares on Oct 1, 2018. The Group did not acquire shares proportionally to its interest. As a result, the Group decreased 5.69% interest of shares. The transaction increased non-controlling interest by \$87,207 and decreased the equity attributable to owners of parent by \$12,326. The effect of changes in interests in Gallant Micro. Machining Co., Ltd. on the equity attributable to owners of the parent for the year ended December 31, 2018 is shown below:

	<u>Year ended</u> <u>December 31, 2018</u>	
Cash	\$	99,533
Increase in the carrying amount of non-controlling interest	(	<u>87,207)</u>
Capital surplus- recognition of changes in ownership interest in subsidiaries (unappropriated retained earnings)	\$	<u>12,326</u>

(28) Operating leases

Effective 2018

A. The Group leases Central Taiwan Science Park plant and Hsinchu Science Park office assets to others under non-cancellable operating lease agreements. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	
Not later than one year	\$	14,961
Later than one year but not later than five years		34,909
Later than five years		-
	\$	<u>49,870</u>

B. The Group leases in plant assets under non-cancellable operating lease agreements. The lease terms are between 2013 and 2036 years. The Group recognized rental expenses of \$22,850 for the years ended December 31, 2018. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	
Not later than one year	\$	20,222
Later than one year but not later than five years		31,412
Later than five years		31,865
	\$	<u>83,499</u>

(29) Supplemental cash flow information

Investing activities with partial cash payments

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
Purchase of property, plant and equipment	\$	6,895	\$	34,588
Add: opening balance of payable on equipment		6,239		8,675
Less: ending balance of payable on equipment	(	<u>1,084)</u>	(	<u>6,239)</u>
Cash paid during the year	\$	<u>12,050</u>	\$	<u>37,024</u>

(30) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Guarantee deposits received	Leases liabilities	Liabilities from financing activities-gross
At January 1, 2019	\$ 735,121	\$ 507,300	\$ 2,435	\$ 267,264	\$ 1,512,120
Changes in cash flow from financing activities	383,866	(33,861)	(99)	(23,869)	326,037
Changes in other non-cash items	-	-	-	3,086	3,086
At December 31, 2019	<u>\$ 1,118,987</u>	<u>\$ 473,439</u>	<u>\$ 2,336</u>	<u>\$ 246,481</u>	<u>\$ 1,841,243</u>

	Short-term borrowings	Long-term borrowings	Guarantee deposits received	Liabilities from financing activities-gross
At January 1, 2018	\$ 734,730	\$ 439,907	\$ 4,103	\$ 1,178,740
Changes in cash flow from financing activities	391	67,393	(1,668)	66,116
At December 30, 2018	<u>\$ 735,121</u>	<u>\$ 507,300</u>	<u>\$ 2,435</u>	<u>\$ 1,244,856</u>

7. RELATED-PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Utron Technologies Corp.	Associate
Hitachi Zosen GPM Technology (Suzhou) Co.,Ltd.	Associate
Sunengine Co., Ltd.	Associate
Fujian Chengzhe Automation Technology Co.Ltd	Substantive related party

(2) Significant related party transactions

A. Purchases:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Purchases of goods:		
Substantive related party	<u>\$ 31,522</u>	<u>\$ 20,631</u>

The purchase prices of transactions with related parties and non-related parties were negotiated in consideration of the differences of product and the complexity of production. There were no similar transaction types with non-related parties. The transactions with related parties are subject to the terms and conditions agreed upon by both parties. The payment terms are 90 days after the date of acceptance on a monthly basis.

B. Payables to related parties:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable:		
Substantive related party	<u>\$ 27,550</u>	<u>\$ 8,643</u>

C. Other transactions:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Items	Amount	Items	Amount
Substantive related party	Research and development expenses	\$ 1,221	Research and development expenses	\$ 3,302
Associates	Rental expenses	\$ 60	Rental expenses	\$ 60

D. Loans to /from related parties:

Loans to related parties:

a. Outstanding balance:

	December 31, 2019	December 31, 2018
Associates	\$ 40,000	\$ -

b. Interest income:

	Years ended December 31, 2019	Years ended December 31, 2018
Associates	\$ 222	\$ -

The loans to associates are repayable monthly over 1 years and carry interest at 2% per annum for the years ended December 31, 2019.

(3) Key management compensation

	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and other short-term employee benefits	\$ 51,390	\$ 38,241
Post-employment benefits	1,246	1,015
Total	\$ 52,636	\$ 39,256

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2019	December 31, 2018	
Time deposits (shown as "financial assets at amortised cost-current")	\$ -	\$ 9,336	Exercise guarantee for construction
Time deposits (shown as "financial assets at amortised cost non-current")	22,227	17,269	Exercise guarantee for construction and customs deposit
Property, plant and equipment	530,710	540,058	Long-term borrowings
	\$ 552,937	\$ 566,663	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingent liabilities

A. As of December 31, 2019 and December 31, 2018, the bank open a guarantee letter for the Company due to business tender and guarantee for construction amounting to \$64,971 and \$173,540, respectively.

B. The Group's customer, China Chongqing Chongmei Huashixin Electronic Manufacturing Co., Ltd., purchased equipment products from the Company. However the customer was unwilling to sign the confirmation of acceptance and pay the rest payment to the Company and its subsidiary due to operation issues. The case has been submitted to China Chongqing Arbitration Commission for judgment in November, 2017. In June 2018, the Arbitration Commission has rejected the claim for the payment. As the Group has recognized allowance for related bad debts from 2015 to 2017, there is no impact to the Group's operation and financial performance.

(2) Unrecognized contract commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

None.

A. Operating lease commitments: please refer to note 6(28).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) Due to the impact of the Coronavirus Disease 2019(COVID-19), the China subsidiaries of the Group complied with the Government policy to extend the Chinese Lunar New Year holidays. In early March, the China subsidiaries have resumed work in accordance with local regulations and set up the task force in response to the impact of COVID-19 immediately. As of the release date of the consolidated financial statements, there is no significant impact to the Group's operation and financial position.

(2) On March 24, 2020, the Board of directors resolved to purchase 3,000 to 6,000 thousands shares of the Company. All the purchased shares will be transferred to employees.

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 to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total borrowings	\$ 1,592,426	\$ 1,242,421
Less: Cash and cash equivalents	(929,712)	(1,293,799)
Net debt	662,714	(51,378)
Total equity	<u>2,820,436</u>	<u>2,860,531</u>
Total capital	<u>3,483,150</u>	<u>2,809,153</u>
Gearing ratio	<u>19.03%</u>	<u>(1.83%)</u>

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 120,353	\$ 278,730
Financial assets at fair value through other comprehensive income	103,462	125,024
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	929,712	1,293,799
Financial assets at amortised cost	849,169	887,466
Notes receivables	48,652	44,893
Accounts receivables	2,338,746	1,787,401
Other accounts receivables	51,625	15,499
Guarantee deposits paid	5,842	6,939
	<u>\$ 4,447,561</u>	<u>\$ 4,439,751</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 1,118,987	\$ 735,121
Contract liabilities	-	-
Accounts payable	996,060	1,571,185
Other accounts payable	321,108	394,664
Long-term borrowings (including current portion)	473,439	507,300
Guarantee deposits received	2,336	2,435
	<u>\$ 2,911,930</u>	<u>\$ 3,210,705</u>
Leases liabilities	<u>\$ 246,481</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 price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and MYR). 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 (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 77,187	29.98	\$ 2,314,067
JPY:NTD	79,198	0.2760	21,859
RMB:NTD	3,977	4.305	17,122
USD: RMB	3,681	6.964	110,369
<u>Non-monetary items: None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 30,513	29.98	\$ 914,794
JPY:NTD	82,078	0.2760	22,653
RMB:NTD	7,163	4.305	30,838
<u>Non-monetary items :None</u>			

				December 31, 2018		
				Foreign currency amount		Book value
				(In thousands)	Exchange rate	(NTD)
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$	41,074		30.72	\$	1,261,574
JPY:NTD		305,218		0.2782		84,912
RMB:NTD		33,817		4.472		151,229
USD: RMB		2,559		6.868		78,603
<u>Non-monetary items</u> :None						
<u>Financial liability</u>						
<u>Monetary items</u>						
USD:NTD	\$	20,226		30.72	\$	621,250
JPY:NTD		327,821		0.2782		91,200
RMB:NTD		7,293		4.472		32,616
<u>Non-monetary items</u> :None						

- ii. Total exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018, amounted (\$16,579) and \$38,022, respectively.
- iii. 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 other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD		1%	\$	23,141	\$	-
JPY:NTD		1%		219		-
RMB:NTD		1%		171		-
USD: RMB		1%		1,104		-
<u>Financial liability</u>						
<u>Monetary items</u>						
USD:NTD		1%	(\$	9,148)	\$	-
JPY:NTD		1%	(	227)		-
RMB:NTD		1%	(	318)		-

	Year ended December 31, 2018		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 12,616	\$ -
JPY:NTD	1%	849	-
RMB:NTD	1%	1,512	-
USD: RMB	1%	786	-
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 6,213)	\$ -
JPY:NTD	1%	(912)	-
RMB:NTD	1%	(326)	-

Price risk

- A. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- B. The Group's investments in equity securities comprise domestic listed and unlisted stocks, shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased with all other variables held constant, post-tax profit for the year ended December 31, 2019 and 2018 would have increased/decreased by \$1,204 and \$2,787, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$1,035 and \$1,250, respectively, as a result of gains/losses on equity securities other comprehensive income classified as available-for-sale equity investment and available-for-sale financial assets equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. 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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the year ended December 31, 2019 and 2018, the Group's borrowings at variable rate were denominated in the NTD, JPY, USD. If the interest rate had increased/decreased by 1%, the amount of cash flow out for the year ended December 31, 2019 and 2018 would have increased/decreased by \$10,072 and \$10,560, respectively.

(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, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The Group classifies customer's accounts receivable, in accordance with credit rating of customer. The Group applies the simplified approach using provision matrix, loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vii. 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.
- viii. The Group used the forecastability of Panel industry research report to adjust historical and timely information to assess the default possibility of accounts receivable. The provision matrix as of December 31, 2019 and 2018 is as follows:

At December 31, 2019	Without past due	Up to 0 -90 days	Up to 91 -120 days	Up to 120 days	Total
Expected loss rate	0.00%-0.60%	0.01%-28.02%	0.26%-32.67%	0.95%-100%	
Total book value	\$ 2,040,160	\$ 251,718	\$ 17,341	\$ 193,735	\$2,502,954
Loss allowance	\$ 4,257	\$ 16,594	\$ 4,506	\$ 138,851	\$ 164,208

At December 31, 2018	Without past due	Up to 0 -90 days	Up to 91 -120 days	Up to 120 days	Total
Expected loss rate	0.01%-0.26%	0.01%-13.77%	0.13%-16.87%	3.35%-100%	
Total book value	\$ 1,577,280	\$ 153,397	\$ 10,105	\$ 170,898	\$1,911,680
Loss allowance	\$ 1,562	\$ 6,230	\$ 1,620	\$ 114,867	\$ 124,279

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

	Year ended December 31, 2019	
	Accounts receivable	
At January 1	\$	124,279
Provision for impairment		89,239
Reversal of impairment loss	(	17,781)
Write-offs	(	30,866)
Effect of foreign exchange	(	663)
At December 31	\$	164,208

	Year ended December 31, 2018	
	Accounts receivable	
At January 1_IAS 39	\$	194,559
Adjustments under new standards		-
Provision for impairment		24,476
Reversal of impairment loss	(	77,975)
Write-offs	(	16,422)
Effect of foreign exchange	(	359)
At December 31	\$	124,279

The abovementioned provision amounts took positive overall economic factor and other credit enhancement into account, thus, the reversal of impairment of credit loss are \$0 and \$53,499 for the year ended December 31, 2019, and 2018, respectively .

- x. For investments in debt instruments at amortised cost and the credit rating levels are presented below:

	December 31, 2019			
	Lifetime			Total
	12 months	Significant increase in credit risk	Impairment of credit	
Financial assets at amortised cost				
Group 1	\$ 157,399	\$ -	\$ -	\$ 157,399
Group 2	672,610	-	-	672,610
Group 3	19,160	-	-	19,160
	<u>\$ 849,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 849,169</u>

	December 31, 2018			
	Lifetime			Total
	12 months	Significant increase in credit risk	Impairment of credit	
Financial assets at amortised cost				
Group 1	\$ 242,232	\$ -	\$ -	\$ 242,232
Group 2	622,856	-	-	622,856
Group 3	22,378	-	-	22,378
	<u>\$ 887,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 887,466</u>
Group 3:Taiwai Bank				
Group 3:China Bank				
Group 3:Other regional Bank				

(c) Liquidity risk

- i . Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii . Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, beneficiary certificates and no active market of debt securities investment (Later than three month but not later than one years of deposit account) , choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at December 31, 2019 and 2018, the Group held money market position of \$1,876,719 and \$2,432,776, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The Company has the following undrawn borrowing facilities:

	December 31, 2019	December 31, 2018
Floating rate:		
Expiring within one year	\$ 1,655,853	\$ 1,464,200
Expiring beyond one year	50,000	20,000
	<u>\$ 1,705,853</u>	<u>\$ 1,484,200</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2020. The other facilities have been arranged to help finance the proposed equipment manufacturing and research and development business activities of the Group. Please refer to note 12.

- iv. 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. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2019	Less than 3 months	3 months and 1year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 609,227	\$ 509,760	\$ -	\$ -	\$ -
Accounts payable	419,094	235,118	-	314,298	-
Other payables	226,691	94,417	-	-	-
Leases liabilities	5,564	15,745	20,610	30,225	245,588
Long-term borrowings (including current portion)	8,018	18,275	374,883	39,908	48,604

Non-derivative financial liabilities:

December 31, 2018	Less than 3 months	3 months and 1year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 390,499	\$ 344,622	\$ -	\$ -	\$ -
Accounts payable	800,993	287,956	-	472,784	809
Other payables	284,059	108,654	1,412	539	-
Long-term borrowings (including current portion)	14,231	26,839	375,093	106,625	3,249

Derivative financial liabilities:

December 31, 2019 and December 31, 2018:None

(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. The fair value of the Group's investment in listed stocks, beneficiary certificates, is included in Level 1

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market and investment property is included in Level 3.

B. Financial instruments not measured at fair value

The Group's financial instruments not measured at fair value (the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, deposit account(over 3 months), short-term borrowings, contract liabilities, accounts payable, other payables, lease payments (shown as other current assets and other non-current assets) and long-term borrowings (including current portion) are approximate to their fair values.

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

(a) The related information of natures of the assets and liabilities is as follows:

December 31, 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 120,353	\$ -	\$ -	\$ 120,353
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	103,462	103,462
Total	<u>\$ 120,353</u>	<u>\$ -</u>	<u>\$ 103,462</u>	<u>\$ 223,815</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss: none				
Option	\$ -	\$ -	\$ -	\$ -
December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 278,730	\$ -	\$ -	\$ 278,730
Available-for-sale financial assets				
Equity securities	-	-	125,024	125,024
Total	<u>\$ 278,730</u>	<u>\$ -</u>	<u>\$ 125,024</u>	<u>\$ 403,754</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss : none				

(b) The methods and assumptions the Group used to measure fair value are as follows:

i . The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Closing price	Net asset value

i i. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models.
- v. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- vi. The Group takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. For the December 31, 2019 and December 31, 2018, there was no transfer into or out from Level 3.

E. The following chart is the financial instruments movement of Level 3 for the year ended December 31, 2019 and 2018:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
	<u>equity instrument</u>	<u>equity instrument</u>
At January 1	\$ 125,024	\$ 129,003
Gains and losses recognized in other comprehensive income	(21,562)	(3,979)
At December 31	<u>\$ 103,462</u>	<u>\$ 125,024</u>

F. For the year ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.

G. Finance segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	December 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Derivative equity instrument:					
Unlisted shares	\$ 92,625	Market comparable companies	Price to book ratio multiple	0.91~3.26	The higher the multiple, the higher the fair value
	December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Derivative equity instrument:					
Unlisted shares	\$ 63,345	Market comparable companies	Price to book ratio multiple	0.77~2.85	The higher the multiple, the higher the fair value

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in difference measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets categorized within Level 3 if the inputs used to valuation models have changed:

		December 31, 2019			
		Recognized in profit or loss		Recognized in other comprehensive income	
		Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change				
Financial assets					
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 928 (\$ 926)
		December 31, 2018			
		Recognized in profit or loss		Recognized in other comprehensive income	
		Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change				
Financial assets					
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 634 (\$ 632)

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): Please refer to table 3.
- 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 NT\$300 million or 20% of paid-in capital or more: None.

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

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid in capital or more: None.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 6.

14. 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.

There is no material change in the Group's segment, classified basis and measurement of segment information.

(2) Measurement of segment information

Management assess the segment performance based on the income (loss) before tax in the consolidated financial statements. The accounting policies of segment are the same with the summary of significant accounting policy in notes 4.

(3) Information about segment

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

Year ended December 31, 2019

	Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	Gallant Micro. Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.	Chun-Zhun Enterprise Corporation (BVI)Ltd.	APEX-I International Co., Ltd.	elimination	Amount
Revenue from external customers	\$ 3,335,058	\$ 67,386	\$ 758,006	\$ -	\$ -	\$ 75,565	\$ -	\$ 4,236,015
Inter-segment revenue	\$ 10,036	\$ 208,225	\$ -	\$ -	\$ -	\$ -	(\$ 218,261)	\$ -
Segment income	\$ 284,610	\$ 17,670	\$ 113,786	(\$ 3,554)	(\$ 1,328)	\$ 19,996	(\$ 70,931)	\$ 360,249
Total segment assets	\$ 5,294,718	\$ 364,864	\$ 1,590,196	\$ 361,551	\$ 13,254	\$ 91,185	(\$ 1,261,908)	\$ 6,453,860

Year ended December 31, 2018

	Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	Gallant Micro. Machining Co., Ltd.	Gallant Precision Machinery (BVI)Ltd.	Chun-Zhun Enterprise Corporation (BVI)Ltd.	APEX-I International Co., Ltd.	elimination	Amount
Revenue from external customers	\$ 3,827,468	\$ 98,726	\$ 922,261	\$ -	\$ -	\$ 24,698	\$ -	\$ 4,873,153
Inter-segment revenue	\$ 13,694	\$ 190,924	\$ -	\$ -	\$ -	\$ -	(\$ 204,618)	\$ -
Segment income	\$ 413,553	\$ 8,504	\$ 122,093	(\$ 6,904)	(\$ 338)	\$ 558	(\$ 45,393)	\$ 492,073
Total segment assets	\$ 5,291,066	\$ 384,625	\$ 1,599,850	\$ 395,749	\$ 14,072	\$ 76,534	(\$ 1,240,700)	\$ 6,521,196

(4) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.

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:

	Year ended December 31, 2019	Year ended December 31, 2018
Reportable segments income/(loss)	\$ 431,180	\$ 537,466
Other	(70,931)	(45,393)
Income/(loss) before tax from continuing operations	<u>\$ 360,249</u>	<u>\$ 492,073</u>

The amounts provided to the chief operating decision-maker with respect to total assets are measured in a manner consistent with that of the financial statements.

A reconciliation of assets of reportable segment and total assets is as follow:

	December 31, 2019	December 31, 2018
Assets of reportable segments	\$ 7,715,768	\$ 7,761,896
Elimination of intersegment assets	(1,261,908)	(1,240,700)
Total assets	<u>\$ 6,453,860</u>	<u>\$ 6,521,196</u>

(5) Information on product and service

Revenue from external customers is mainly from manufacturing and selling of Display process equipment, semiconductor process equipment and intelligent automated equipment. Detail of revenue balance is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Display process equipment	\$ 2,808,168	\$ 3,501,674
Semiconductor process equipment	874,040	945,809
Intelligent automated transportation equipment	85,696	24,499
Other	468,111	401,171
Total	<u>\$ 4,236,015</u>	<u>\$ 4,873,153</u>

(6) Geographical information

The Company and its subsidiaries geographical information for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	Non-current assets (note)	Revenue	Non-current assets (note)
Taiwan	\$ 1,359,275	\$ 833,644	\$ 2,063,982	\$ 642,029
China	2,858,786	52,051	2,678,649	45,612
Others	17,954	1,305	130,522	1,355
Total	<u>\$ 4,236,015</u>	<u>\$ 887,000</u>	<u>\$ 4,873,153</u>	<u>\$ 688,996</u>

Note: not included available-for-sale financial assets-non-current, financial assets measured at cost -non-current, investments accounted for under equity method and deferred income tax assets.

(7) Major customer information

Revenue from specific customers that represent over 10% of total revenues of the Group for the years ended December 31, 2019 and 2018 is as follows:

	<u>Year ended December 31, 2019</u>		<u>Segment</u>
	<u>Revenue</u>	<u>Percentage(%)</u>	
Customer J	\$ 1,017,072	24%	The whole Group
Customer B	528,482	12%	The whole Group
Customer F	436,526	10%	The whole Group
	<u>Year ended December 31, 2018</u>		<u>Segment</u>
	<u>Revenue</u>	<u>Percentage(%)</u>	
Customer B	\$ 1,297,975	27%	The whole Group
Customer F	987,373	20%	The whole Group

Table 1

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
FINANCINGS PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company(Note 1)	Financing Company's Total Financing Amount Limits (Note 1)	Footnote
													Item	Value			
1	Gallant Micro-Machining Co., Ltd.	Utron Technologies Corp	Other receivables-related parties	Y	\$ 50,000	\$ 50,000	\$ 40,000	No less than 2%	Short-term financing	-	Operating need	-	Promised note	50,000	\$ 91,593	\$ 183,186	

Note1 : The subsidiaries of the Company are in accordance with the "Procedures for Provision of Loans" :

(1) Total financing amount limits: Total financing amount limits shall not exceed 40% of the net worth of the Company.

(2) The need for short-term financing: The total loan amount is limited to 20% of the company's net worth. The total amount for lending to a company for funding for a short-term period shall not exceed 10% of the net worth of the Company.

Note2 : When a public company whose loans of funds were resolved by the board of directors in accordance with paragraph 1 of Article 14 of Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, although the fund have not drawn down, the company shall announce the amount of loans of funds which resolved by the board of directors to disclose exposure risks. However, if the subsequent funds are repaid, the balance after repayment should be disclosed to reflect the adjustment of risk. If a public company whose chairperson be authorized within a certain monetary limit resolved by the board of directors, and within a period not to exceed one year, to give loans in installments or to make a revolving credit line available for the counterparty to draw down in accordance with paragraph 2 of Article 14 of Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, the company shall announce the amount of loans of funds which resolved by the board of directors. Although the funds will be repaid later, considering the possibility of refinancing the loan, the company shall announce the amount of loans of funds which resolved by the board of directors.

Table 1

Table 2

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party(Note1)	Maximum Balance for the Period (Note2)	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Footnote
		Name	Nature of Relationship											
0	Gallant Precision Machining Co., Ltd.	. APEX-I International Co., Ltd.	Subsidiary	\$ 477,259	\$ 180,000	\$ 100,000	\$ 189	\$ -	4.19	\$ 1,193,327	Y	N	N	

Note1: Total endorsement/ guarantee amount limits shall not exceed 50% of the net worth of the Company. The total endorsement/ guarantee amount to a company shall not exceed 20% of the net worth of the Company.

Note2: Limits on endorsement/ guarantee amount is based on the amount of the endorsement/ guarantee contract or notes were signed between guaranteed party and financial institutions.

Table 2

Table 3

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD (NOT INCLUDING SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)
DECEMBER 31, 2019

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2019				Footnote
				Shares/Units	Carrying Value	Percentage of Ownership	Fair Value	
Gallant Precision Machining Co., Ltd.	Union Money Market	-	Financial assets at fair value through profit or loss-current	1,514,921	\$ 20,079	-	\$ 20,079	
Gallant Precision Machining Co., Ltd.	Jihsun Monetary Market Fund	-	Financial assets at fair value through profit or loss-current	6,739,952	100,274	-	100,274	
Gallant-Rapid Corporation Ltd.	Phoenix & Corporation	-	Financial assets at fair value through other comprehensive income-non-current	669,375	10,837	0.59	10,837	
King Mechatronics Co., Ltd.	POWER EVER ENTERPRISES LIMITED	-	Financial assets at fair value through other comprehensive income-non-current	624,726	91,899	10.15	91,899	
APEX-I International Co., Ltd.	Shinyu Light Co., Ltd.	-	Financial assets at fair value through other comprehensive income-non-current	286,891	726	1.98	726	

Table 3

Table 4

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
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**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction term compared to third party transactions(note1)		Notes/accounts receivable (payable)		Footnote (note2)
			Purchases(sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Gallant Precision Machining Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	The Company holds indirectly 60% of the investee.	Purchases	\$ 171.598	7.72%	Similar to third parties	Similar to third parties	Similar to third parties	\$ -	0.00%	

Note1: If the transaction term are different compared to third party, please describe the differences terms on column of credit term and unit price.

Note2: If the transaction have prepayment or received in advance, please describe the reason, term, amount and differences compared to third party on column of footnote.

Table 4

Table 5

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Gallant Precision Machining Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	1	Purchases	\$ 171,598	subject to the terms and conditions agreed upon by both parties	4.05
0	Gallant Precision Machining Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	1	Accounts payable	50,869	subject to the terms and conditions agreed upon by both parties	0.79
1	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Purchases	36,579	subject to the terms and conditions agreed upon by both parties	0.86
1	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Accounts payable	12,069	subject to the terms and conditions agreed upon by both parties	0.19
1	Gallant Micro. Machining Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Accounts receivable	14,304	subject to the terms and conditions agreed upon by both parties	0.22
1	Gallant Micro. Machining Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Sales	15,303	subject to the terms and conditions agreed upon by both parties	0.36
2	King Mechatronics Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Purchases	37,806	subject to the terms and conditions agreed upon by both parties	0.89
2	King Mechatronics Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Accounts payable	26,924	subject to the terms and conditions agreed upon by both parties	0.42

Note 1: The information of transactions between the Company and the consolidated subsidiaries should be noted in "Number" column.

(1) Number 0 represents the Company.

(2) The consolidated subsidiaries are numbered in order from number 1.

Note 2: The transaction relationships with the counterparties are as follows:

(1) The Company to the consolidated subsidiaries.

(2) The consolidated subsidiaries to the Company.

(3) The consolidated subsidiaries to another consolidated subsidiaries.

Note3: In calculating the ratio, the transaction amount is divided by consolidated total assets for balance sheet accounts and is divided by consolidated total revenues for income statement accounts.

Note4: The information only disclosing for the amount of transactions are more than \$10,000 and counter parties shall not disclose.

Table 5

Table 6

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES
SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)
FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investor Company	Investee Company(note1 · 2)	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2019			Net Income (Losses) of the Investee(note2(2))	Share of Profits/ Losses of Investee(note2(3))	Footnote
				December 31, 2019	December 31, 2018	Shares	Percentage of Ownership	Carrying Value			
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	British Virgin Islands	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	\$ 459,050	\$ 459,050	13,560,000	100.00	\$ 208,563	\$ 2,507	\$ 2,507	
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.	British Virgin Islands	Investment Gallant Precision Machinery (Xiamen) Co., Ltd.	660,506	660,506	20,289,000	100.00	359,805 (	1,974) (	1,974)
Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Taiwan	Marketing and selling of process equipment of LCD and related parts.	46,657	46,657	6,600,000	100.00	81,884	15,960	15,960	
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd.	British Virgin Islands	Investing in Gallant Technology (Shenzhen) Co., Ltd. and Chun-Zhun Precision Machining (Guang Zhou Nan Sha) Corporation	125,671	125,671	3,576,000	100.00	10,212 (	1,328) (	1,328)
Gallant Precision Machining Co., Ltd.	Sunengine Co., Ltd.	Taiwan	Manufacturing and selling of battery and energy technology services business	366,877	366,877	7,568,259	37.84	30,148	7,429	2,811	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Taiwan	Manufacturing and selling of semiconductor related equipment and parts	379,182	379,182	16,171,750	57.19	523,899	85,429	48,857	
Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	British Virgin Islands	Investment Gallant Micro. Machining (Suzhou) Co., Ltd.	393,508	393,508	2,780,645	100.00	707,167	6,937	6,937	
Gallant Micro. Machining Co., Ltd.	Gallant Micro Machining (Malaysia) Sdn. Bhd.	Malaysia	Engaged in the import and export and trading business of semiconductor substrate machines and related parts	3,992	3,992	500,000	100.00	2,810 (	28) (	28)
Gallant Micro. Machining Co., Ltd.	Utron Technologies Corp	Taiwan	Testing of wire and tools and testing equipment of PBC and related systems	29,540	-	14,770	42.20	25,443 (	22,948) (	4,097)

Note: Original investment amount has translated to New Taiwan Dollars at the closing exchange rate.

Table 6

Table 7

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Net Income (Losses) of the Investee Company(note2(2)c)	Percentage of Ownership	Share of Profits/Losses (note 2(2)B)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019	Footnote
					Outflow	Inflow							
Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	\$ 189,474	2	\$ 157,125	\$ -	\$ -	\$ 157,125	\$ 5,900	100.00	\$ 5,900	\$ 175,077	\$ -	Note2- 2.B
Gallant Precision Machinery (Xiamen) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	572,618	2	572,618	-	-	572,618	(1,834)	100.00	(1,834)	361,107	-	Note2- 2.B
Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	62,538	2	62,538	-	-	62,538	(1,265)	100.00	(1,265)	10,106	-	Note2- 2.B
CHUN-ZHUN Precision Machining(Guang Zhou Nan Sha)Corporation	-	-	2	48,777	-	-	48,777	-	-	-	-	-	Note2- 2.C
Suzhou Top Creation Machines Co.,Ltd.	PCB / FPC Wet Process Equipments	164,890	2	34,252	-	(2,809)	31,443	-	10.15	-	91,899	4,728	Note2- 2.C
Gallant Micro. Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	136,409	2	241,131	-	-	241,131	2,291	57.19	1,310	622,614	-	Note2- 2.B
Hitachi Zosen GPM Technology (Suzhou) Co., Ltd.	Manufacturing and selling of kinds of film forming system, filling and packaging system and related services.	163,590	3	-	-	-	-	(4,021)	30.00	-	-	-	Note2- 2.C
Gallant International Trading Co., Ltd.	Engaged in selling of mechanical equipment	30,135	3	-	-	-	-	(2,044)	100.00	(2,044)	6,283	-	Note2- 2.B
Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	17,220	3	-	-	-	-	(1,811)	100.00	(1,811)	815	-	Note2- 2.B
Gallant Precision Intelligence Technology Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	43,050	3	-	-	-	-	17,087	60.00	10,252	59,408	-	Note2- 2.B
Gallant Biotech (Suzhou) Co., Ltd.	Manufacturing, research, development and selling of medical equipment	78,264	3	-	-	-	-	(31,586)	29.14	(7,784)	5,526	-	Note2- 2.B

Table 7

Investee Company	Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
Gallant Precision Machining Co., Ltd.	\$ 841,058	\$ 1,002,471	\$ 1,431,992
Gallant Micro. Machining Co., Ltd.	272,574	272,574	549,557

Note1: There are three methods of investment as follows

(1) Directly invest in Mainland China.

(2) Indirectly invest in Mainland China.

A. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through Gallant-Rapid Corporation Ltd. and then invest in Mainland China.

B. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through Gallant Precision Machinery (BVI) Ltd. and then invest in Mainland China.

C. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through Chun-Zhun Enterprise Corporation Ltd. and then invest in Mainland China.

D. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through King Mechatronics Co., Ltd. and then invest in Mainland China.

(3) Others.

Note2: Share of Profits/Losses recognized for the year ended December, 2018:

(1) No investment income (loss) recognition.

(2) There are three basis for investment income (loss) recognition.

A. The basis for investment income (loss) recognition is from the financial statements which were based on the audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

B. The basis for investment income (loss) recognition is from the financial statements which were based on the audited and attested by R.O.C. parent company's CPA.

C. Others (The basis for investment income (loss) recognition is from the non-audited financial statements prepared by the investees.

Note3: The amounts of paid-in capital and accumulated beginning and ending balance have translated to New Taiwan Dollars at the closing exchange rate.

Table 7-1

Table 8

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
 INFORMATION ON INVESTMENT IN MAINLAND CHINA (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

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Sales		Purchases		Provision of Endorsements/ Guarantees or Collaterals		Financing				
	Amount	%	Amount	%	Ending Balance	Purpose	Maximum balance	Ending Balance	Interest Rate	Interest expense	Other
Gallant Precision Intelligence Technology Co., Ltd.	\$ -	-	\$ 171,598	7.72	-	-	-	-	-	-	-

Table 8