

**GALLANT PRECISION MACHINING CO., LTD. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
FOR THE NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To Gallant Precision Machining Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of Gallant Precision Machining Co., Ltd. and its subsidiaries as of September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018, respectively, changes in equity and cash flows for the nine-month periods ended September 30, 2019 and 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. 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 International Accounting Standard 34, "Interim Financial Reporting," as endorsed by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(3) and 6(7), the consolidated financial statements included the financial statements of certain nonsignificant subsidiaries, which were not reviewed by independent accountants. These financial statements reflect total assets amounting to \$928,433 thousand and \$971,635 thousand, constituting 14% and 17% of consolidated total assets as of September 30, 2019 and 2018, respectively, total liabilities amounting to \$114,746 thousand and \$118,673 thousand, constituting 3% and 4% of consolidated total liabilities as of September 30, 2019 and 2018, respectively, and total comprehensive (loss) income amounting to (\$5,987) thousand, (\$16,839) thousand, (\$11,099) thousand and \$1,229 thousand, constituting (5%), (224%), (7%) and 0% of consolidated total comprehensive income (loss) for the three-month periods ended September 30, 2019 and 2018, and for the nine-month periods ended September 30, 2019 and 2018, respectively. The investments accounted for using equity method amounting to \$68,642 thousand and \$29,196 thousand as of September 30, 2019 and 2018, respectively, and related share of the profit or loss amounting to (\$4,281) thousand and (\$37,565) thousand, constituting (3%) and (12%) of total consolidated comprehensive income (loss) for the nine-months periods ended June 30, 2019 and 2018, respectively.

Qualified Conclusion

Based on our reviews except for the effects of the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent accountants, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Gallant Precision Machining Co., Ltd. and its subsidiaries as of September 30, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the nine-month periods ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission of the Republic of China.

PricewaterhouseCoopers, Taiwan
November 11, 2019

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

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

	Assets	Notes	September 30, 2019		December 31, 2018		September 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 1,204,906	19	\$ 1,293,799	20	\$ 942,706	16
1110	Financial assets at fair value through profit or loss - current	6(2)	223,995	3	278,730	4	33,513	1
1136	Financial assets at amortized cost - current	6(4) and 8	798,035	12	860,861	13	804,409	14
1150	Notes receivable, net	6(5)	65,327	1	44,893	1	31,468	1
1170	Accounts receivable, net	6(5) and 7	2,005,860	31	1,787,401	27	1,827,239	32
1200	Other receivables		17,427	-	15,499	-	21,994	-
1210	Other receivables to related parties	7	30,194	-	-	-	-	-
130X	Inventories, net	6(6)	990,517	15	1,222,843	19	1,091,123	19
1410	Prepayments		31,397	1	39,883	1	70,226	1
1470	Other current assets		12,181	-	12,123	-	16,666	-
11XX	Current Assets		<u>5,379,839</u>	<u>82</u>	<u>5,556,032</u>	<u>85</u>	<u>4,839,344</u>	<u>84</u>
Non-current assets								
1517	Financial assets at fair value through other comprehensive income - non - current	6(3)	84,003	1	125,024	2	124,211	2
1535	Financial assets at amortized cost - non-current	6(4) and 8	22,254	1	26,605	-	17,226	-
1550	Investments accounted for using equity method	6(7)	68,642	1	27,337	1	29,196	1
1600	Property, plant and equipment, net	6(8) and 8	594,766	9	622,497	10	616,160	11
1755	Right-of-use assets	6(9)	250,940	4	-	-	-	-
1780	Intangible assets, net		30,664	1	65,961	1	70,863	1
1840	Deferred income tax assets	6(25)	85,550	1	90,642	1	80,860	1
1900	Other non-current assets		4,171	-	7,098	-	8,761	-
15XX	Non-current assets		<u>1,140,990</u>	<u>18</u>	<u>965,164</u>	<u>15</u>	<u>947,277</u>	<u>16</u>
1XXX	Total assets		<u>\$ 6,520,829</u>	<u>100</u>	<u>\$ 6,521,196</u>	<u>100</u>	<u>\$ 5,786,621</u>	<u>100</u>

(Continued)

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Liabilities and Equity	Notes	September 30, 2019		December 31, 2018		September 30, 2018		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
Current liabilities								
2100	Short-term loans	6(10)	\$ 1,021,176	16	\$ 735,121	11	\$ 615,121	11
2130	Contract liabilities-current	6(19)	217,477	3	59,219	1	50,642	1
2170	Accounts payable	6(11)	1,141,032	18	1,562,542	24	1,276,689	22
2180	Accounts payables to related parties	7	5,271	-	8,643	-	8,003	-
2200	Other payables	6(12)	314,633	5	394,664	6	353,783	6
2230	Current income tax liabilities	6(25)	17,507	-	38,514	-	19,049	-
2250	Provisions for liabilities - current		169,789	3	187,448	3	186,243	3
2280	Lease liabilities-current		17,058	-	-	-	-	-
2300	Other current liabilities	6(13)	29,372	-	41,376	1	77,934	2
21XX	Current Liabilities		<u>2,933,315</u>	<u>45</u>	<u>3,027,527</u>	<u>46</u>	<u>2,587,464</u>	<u>45</u>
Non-current liabilities								
2527	Contract liabilities-non-current	6(19)	-	-	9,702	-	6,745	-
2540	Long-term loans	6(13)	457,036	7	473,439	8	346,977	6
2570	Deferred income tax liabilities	6(25)	65,324	1	69,516	1	68,241	1
2580	Lease liabilities-non-current		235,430	4	-	-	-	-
2600	Other non-current liabilities		75,347	1	80,481	1	78,562	1
25XX	Non-current liabilities		<u>833,137</u>	<u>13</u>	<u>633,138</u>	<u>10</u>	<u>500,525</u>	<u>8</u>
2XXX	Total Liabilities		<u>3,766,452</u>	<u>58</u>	<u>3,660,665</u>	<u>56</u>	<u>3,087,989</u>	<u>53</u>
Equity attributable to owners of parent company								
Share capital								
3110	Share capital - common stock	6(15)	1,651,361	25	1,651,361	25	1,651,361	29
Capital surplus								
3200	Capital surplus	6(16)	199,091	3	199,091	3	186,765	3
Retained earnings								
3310	Legal reserve	6(17)	123,722	2	86,712	1	86,711	1
3320	Special reserve		132,987	2	132,987	2	132,987	2
3350	Unappropriated retained earnings		318,905	5	379,946	6	337,128	6
Other equity interest								
3400	Other equity interest	6(18)	(95,203)	(1)	(32,471)	-	(40,372)	-
31XX	Equity attributable to owners of the parent company		<u>2,330,863</u>	<u>36</u>	<u>2,417,626</u>	<u>37</u>	<u>2,354,580</u>	<u>41</u>
36XX	Non-controlling interest		<u>423,514</u>	<u>6</u>	<u>442,905</u>	<u>7</u>	<u>344,052</u>	<u>6</u>
3XXX	Total equity		<u>2,754,377</u>	<u>42</u>	<u>2,860,531</u>	<u>44</u>	<u>2,698,632</u>	<u>47</u>
Significant contingent liabilities and unrecognised contract commitments								
3X2X	Total liabilities and equity		<u>\$ 6,520,829</u>	<u>100</u>	<u>\$ 6,521,196</u>	<u>100</u>	<u>\$ 5,786,621</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)
(UNAUDITED)

Items	Notes	For the three-month periods ended September 30				For the nine-month periods ended September 30			
		2019		2018		2019		2018	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000									
5000	6(19)and7	\$ 1,284,179	100	\$ 1,079,897	100	\$ 3,182,367	100	\$ 3,657,830	100
5900	6(6)(23)(24)	(869,283)	(67)	(808,418)	(75)	(2,291,691)	(72)	(2,631,602)	(72)
		<u>414,896</u>	<u>33</u>	<u>271,479</u>	<u>25</u>	<u>890,676</u>	<u>28</u>	<u>1,026,228</u>	<u>28</u>
6100	6(23)(24)	(38,202)	(3)	(60,783)	(6)	(146,671)	(5)	(154,671)	(4)
6200		(123,083)	(9)	(84,549)	(8)	(239,085)	(7)	(283,561)	(7)
6300		(74,982)	(6)	(75,470)	(7)	(219,823)	(7)	(246,907)	(7)
6450		17,408	1	39,634	4	(50,272)	(2)	43,693	1
6000		<u>(218,859)</u>	<u>(17)</u>	<u>(181,168)</u>	<u>(17)</u>	<u>(655,851)</u>	<u>(21)</u>	<u>(641,446)</u>	<u>(17)</u>
6900		<u>196,037</u>	<u>16</u>	<u>90,311</u>	<u>8</u>	<u>234,825</u>	<u>7</u>	<u>384,782</u>	<u>11</u>
7010	6(20)	11,603	1	26,512	2	46,736	2	56,558	1
7020	6(21)	12,098	1	3,354	-	32,565	1	30,037	1
7050	6(22)	(9,180)	(1)	(5,044)	-	(26,704)	(1)	(15,867)	-
7060									
		(935)	-	(35,703)	(3)	(4,281)	-	(37,565)	(1)
7000		<u>13,586</u>	<u>1</u>	<u>(10,881)</u>	<u>(1)</u>	<u>48,316</u>	<u>2</u>	<u>33,163</u>	<u>1</u>
7900		209,623	17	79,430	7	283,141	9	417,945	12
7950	6(25)	(50,225)	(4)	(25,652)	(2)	(58,112)	(2)	(66,524)	(2)
8200		<u>\$ 159,398</u>	<u>13</u>	<u>\$ 53,778</u>	<u>5</u>	<u>\$ 225,029</u>	<u>7</u>	<u>\$ 351,421</u>	<u>10</u>
8316	6(18)	\$ 1,899	-	\$ 3,860	1	(\$ 34,688)	(1)	\$ 9,162	-
8349	6(25)	(381)	-	(7,008)	(1)	1,866	-	(11,302)	-
8310		<u>1,518</u>	<u>-</u>	<u>(3,148)</u>	<u>-</u>	<u>(32,822)</u>	<u>(1)</u>	<u>(2,140)</u>	<u>-</u>
8361	6(18)	(47,776)	(4)	(43,109)	(4)	(34,508)	(1)	(33,940)	(1)
8360		<u>(47,776)</u>	<u>(4)</u>	<u>(43,109)</u>	<u>(4)</u>	<u>(34,508)</u>	<u>(1)</u>	<u>(33,940)</u>	<u>(1)</u>
8300		<u>(\$ 46,258)</u>	<u>(4)</u>	<u>(\$ 46,257)</u>	<u>(4)</u>	<u>(\$ 67,330)</u>	<u>(2)</u>	<u>(\$ 36,080)</u>	<u>(1)</u>
8500		<u>\$ 113,140</u>	<u>9</u>	<u>\$ 7,521</u>	<u>1</u>	<u>\$ 157,699</u>	<u>5</u>	<u>\$ 315,341</u>	<u>9</u>
8610		\$ 142,977	12	\$ 45,768	4	\$ 190,647	6	\$ 324,155	9
8620		16,421	1	8,010	1	34,382	1	27,266	1
		<u>\$ 159,398</u>	<u>13</u>	<u>\$ 53,778</u>	<u>5</u>	<u>\$ 225,029</u>	<u>7</u>	<u>\$ 351,421</u>	<u>10</u>
8710		\$ 106,726	8	\$ 7,082	1	\$ 127,915	4	\$ 295,216	8
8720		6,414	1	439	-	29,784	1	20,125	1
		<u>\$ 113,140</u>	<u>9</u>	<u>\$ 7,521</u>	<u>1</u>	<u>\$ 157,699</u>	<u>5</u>	<u>\$ 315,341</u>	<u>9</u>
9750	6(26)	\$	0.86	\$	0.28	\$	1.15	\$	1.96
9850	6(26)	\$	0.86	\$	0.28	\$	1.14	\$	1.94

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	Equity attributable to owners of the parent					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 financial assets at fair value through other comprehensive income				Unrealized gain or loss on available-for-sale financial assets
For the nine-month period ended September 30, 2018												
Balance at January 1, 2018		\$ 1,651,361	\$ 186,765	\$ 66,921	\$ 178,169	\$ 197,905	(\$ 45,187)	\$ -	(\$ 17,892)	\$ 2,218,042	\$ 322,665	\$ 2,540,707
Effects of retrospective application	6(18)	-	-	-	-	5,032	-	19,364	17,892	42,288	7,388	49,676
Balance at January 1, 2018 after adjustments		<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>
Profit for the period		-	-	-	-	324,155	-	-	-	324,155	27,266	351,421
Other comprehensive income for the period	6(18)	-	-	-	-	-	(26,704)	(2,235)	-	(28,939)	(7,141)	(36,080)
Total comprehensive income for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324,155</u>	<u>(26,704)</u>	<u>(2,235)</u>	<u>-</u>	<u>295,216</u>	<u>20,125</u>	<u>315,341</u>
Distribution of 2017 earnings:												
Legal reserve		-	-	19,790	-	(19,790)	-	-	-	-	-	-
Special reserve		-	-	-	(45,182)	45,182	-	-	-	-	-	-
Cash dividends		-	-	-	-	(200,966)	-	-	-	(200,966)	-	(200,966)
Disposal of investments in equity instruments at fair value through other comprehensive income		-	-	-	-	(14,390)	-	14,390	-	-	-	-
Changes in non-controlling interest		-	-	-	-	-	-	-	-	-	(6,126)	(6,126)
Balance at September 30, 2018		<u>\$ 1,651,361</u>	<u>\$ 186,765</u>	<u>\$ 86,711</u>	<u>\$ 132,987</u>	<u>\$ 337,128</u>	<u>(\$ 71,891)</u>	<u>\$ 31,519</u>	<u>\$ -</u>	<u>\$ 2,354,580</u>	<u>\$ 344,052</u>	<u>\$ 2,698,632</u>
For the nine-month period ended September 30, 2019												
Balance at January 1, 2019		\$ 1,651,361	\$ 199,091	\$ 86,712	\$ 132,987	\$ 379,945	(\$ 64,286)	\$ 31,815	\$ -	\$ 2,417,625	\$ 442,905	\$ 2,860,530
Profit for the period		-	-	-	-	190,647	-	-	-	190,647	34,382	225,029
Other comprehensive income for the period	6(18)	-	-	-	-	-	(25,531)	(37,201)	-	(62,732)	(4,598)	(67,330)
Total comprehensive income for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,647</u>	<u>(25,531)</u>	<u>(37,201)</u>	<u>-</u>	<u>127,915</u>	<u>29,784</u>	<u>157,699</u>
Distribution of 2018 earnings:												
Legal reserve		-	-	37,010	-	(37,010)	-	-	-	-	-	-
Cash dividends		-	-	-	-	(214,677)	-	-	-	(214,677)	-	(214,677)
Recognition of changes in equities of subsidiaries	6(27)	-	-	-	-	-	-	-	-	-	(12,861)	(12,861)
Changes in non-controlling interest		-	-	-	-	-	-	-	-	-	(36,314)	(36,314)
Balance at September 30, 2019		<u>\$ 1,651,361</u>	<u>\$ 199,091</u>	<u>\$ 123,722</u>	<u>\$ 132,987</u>	<u>\$ 318,905</u>	<u>(\$ 89,817)</u>	<u>(\$ 5,386)</u>	<u>\$ -</u>	<u>\$ 2,330,863</u>	<u>\$ 423,514</u>	<u>\$ 2,754,377</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
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	For the nine-month periods ended September 30	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 283,141	\$ 417,945
Adjustments			
Income and expenses having no effect on cash flow			
Depreciation	6(8) (9) (23)	37,488	23,647
Amortization	6(23)	31,910	31,352
Expected credit loss (gain)		50,272	(43,693)
Gain on financial assets at fair value through profit , net	6(21)	(899)	(2,108)
Interest expense	6(22)	26,704	15,867
Interest income	6(20)	(17,306)	(12,099)
Dividend income	6(20)	(2,889)	(1,868)
Share of profit of associates and joint ventures accounted for using equity method		4,281	37,565
Loss on disposal of property, plant and equipment, net	6(21)	211	37
Gain on disposal of investments accounted for using equity method	6(21)	(3,045)	-
Impairment loss from non – financial assets		950	-
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		55,634	1,271
Notes receivable		(20,676)	5,878
Accounts receivable		(271,339)	(242,514)
Other receivables		1,073	(13,514)
Other receivables - related parties		(30,198)	-
Inventories		228,598	417,403
Prepayments		2,900	(16,599)
Other current assets		(127)	(3,298)
Other non-current assets		59	10
Net changes in liabilities relating to operating activities			
Contract liabilities		148,878	(91,821)
Accounts payable		(419,674)	(355,274)
Accounts payable - related parties		(3,144)	3,974
Other payables		(71,312)	20,701
Provisions for liabilities		(17,617)	(1,033)
Unearned receipts		382	8,348
Other current liabilities		1,668	2,101
Accrued pension liabilities		(4,323)	(4,151)
Cash generated from operations		11,600	198,127
Interest received		13,882	9,309
Dividend received		2,593	1,870
Interest paid		(27,480)	(15,362)
Income tax paid		(72,655)	(95,829)
Net cash provided by (used in) operating activities		(72,060)	98,115
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition (proceeds from disposal) of financial assets at amortized cost		\$ 46,639	156,139
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)	(10,547)	(22,039)
Proceeds from disposal of property, plant and equipment		560	2,749
Acquisition of intangible assets		(1,779)	(5,036)
Refundable deposits refunded (paid)		1,864	-
Refundable deposits paid		-	(2,916)
Net decrease in cash due to changes in consolidated entities		(3,861)	-
Net cash provided by (used in) investing activities		3,336	142,852
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from short -term loan	6(30)	1,949,537	1,110,600
Repayment of short -term loans	6(30)	(1,663,482)	(1,230,209)
Proceeds from long-term loan	6(30)	350,000	220,000
Repayment of long-term loans	6(30)	(380,323)	(254,094)
Guarantee deposits refunded	6(30)	(99)	(1,668)
Repayment of the principal portion of lease liabilities		(17,577)	-
Cash dividends paid		(250,991)	(229,603)
Decrease in non-controlling interests		-	22,512
Net cash used in financing activities		(12,935)	(362,462)
Effect of fluctuations in exchange rate		(7,234)	(7,598)
Net decrease in cash and cash equivalents		(88,893)	(129,093)
Cash and cash equivalents at beginning of period	6(1)	1,293,799	1,071,799
Cash and cash equivalents at end of period	6(1)	\$ 1,204,906	\$ 942,706

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

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 September 30, 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 November 11, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("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 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 \$10,413 was recognized in the third quarter of 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 leasee’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

The above standards and interpretations have no significant impact to the Company financial condition and operating result based on the Company 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
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
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 adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2018, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

A. The consolidated financial statements of the Group have been prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and IAS 34, "Interim Financial Reporting" as endorsed by the FSC.

B. Please refer to the Group's consolidated financial statements for the year ended December 31, 2018.

(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) Available-for-sale financial assets measured at fair value.

(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:

The basis for preparation of consolidated financial statements are consistent with those of the year ended December 31, 2018.

B. Subsidiaries included in the consolidated financial statements:

Percentage of Ownership

Name of Investor	Name of subsidiary	Main Business Activities	Percentage of Ownership			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Manufacturing and selling of semiconductor related equipment and parts	57.19	57.19	62.88	Note1
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd. (the "GRC")	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	100	100	100	Note2
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI)Ltd. (the "GPM(BVI)")	Investing in Gallant Precision Machinery (Xiamen) Co., Ltd.	100	100	100	Note2
Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Marketing and selling of process equipment of LCD and related parts.	100	100	100	Note2
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd. (the "CZE")	Investing in Gallant Technology (Shenzhen) Co., Ltd.	100	100	100	Note2
Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd. (the "KMC")	Investing in Gallant Micro. Machining (Suzhou) Co., Ltd.	100	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 machines and related parts	100	100	100	Note2
GRC	Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	100	Note2
KMC	Investing in Gallant Micro. Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	100	100	100	
GPM(BVI)	Gallant Precision Machinery (Xiamen) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	100	Note2
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	51	Note2 Note3
CZE	Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	100	100	100	Note2
Gallant Precision Industries (Suzhou)Co., Ltd.	Gallant International Trading Co., Ltd.	Engaged in selling of mechatronics equipment	100	100	100	Note2
Gallant Precision Industries (Suzhou) Co., Ltd.	Gallant Precision Intelligence Technology Co.,Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	60	60	60	Note2
Gallant International Trading Co., Ltd.	Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	100	100	100	Note2

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

Note2: The financial statements of the entity as of September 30, 2019 and 2018 were not reviewed by the independent auditors as the entity did not meet the definition of significant subsidiary.

Note3: 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 September 30, 2019, December 31, 2018 and September 30, 2018, the non-controlling interest amounted to \$423,514, \$442,905 and \$344,052, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest					
		September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	Ownership(%)	Amount	Ownership(%)	Amount	Ownership(%)
Gallant Micro. Machining Co., Ltd.	Taiwan	\$ 384,988	42.81	\$ 392,346	42.81	\$ 290,950	37.12

Summarized financial information of the subsidiaries:

Balance sheets

	Gallant Micro. Machining Co., Ltd. and its subsidiaries		
	September 30, 2019	December 31, 2018	September 30, 2018
Current assets	\$ 1,264,567	\$ 1,293,745	\$ 1,304,585
Non-current assets	352,134	306,106	292,838
Current liabilities	(558,369)	(521,874)	(653,367)
Non-current liabilities	(159,036)	(161,495)	(160,246)
Total net assets	\$ 899,296	\$ 916,482	\$ 783,810

Statements of comprehensive income

	Gallant Micro. Machining Co., Ltd. and its subsidiaries	
	For the three-month period ended September 30, 2019	For the three-month period ended September 30, 2018
Revenue	\$ 234,611	\$ 270,373
Profit before income tax	\$ 47,339	\$ 35,756
Income tax expense	(9,467)	(10,063)
Profit for the period from continuing operations	37,872	25,693
Loss from discontinued operations	-	-
Profit for the period	37,872	25,693
Other comprehensive income, net of tax	(23,193)	(19,268)
Total comprehensive income for the period	\$ 14,679	\$ 6,425
Comprehensive income attributable to non-controlling interest	\$ 28,958	\$ 2,387
Dividends paid to non-controlling interest	\$ -	\$ -
	Gallant Micro. Machining Co., Ltd. and its subsidiaries	
	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
Revenue	\$ 592,196	\$ 698,238
Profit before income tax	\$ 98,156	\$ 87,988
Income tax expense	(19,959)	(27,708)
Profit for the period from continuing operations	78,197	60,280
Loss from discontinued operations	-	-
Profit for the period	78,197	60,280
Other comprehensive income, net of tax	(10,554)	(18,376)
Total comprehensive income for the period	\$ 67,643	\$ 41,904
Comprehensive income attributable to non-controlling interest	\$ 28,958	\$ 15,555
Dividends paid to non-controlling interest	\$ 36,314	\$ 28,637

Statements of cash flows

	Gallant Micro. Machining Co., Ltd. and its subsidiaries	
	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
Net cash provided by (used in) operating activities	\$ 206,178	\$ 32,136
Net cash provided by (used in) investing activities	(34,963)	(22,198)
Net cash provided by (used in) financing activities	(58,184)	(40,355)
Effect of exchange rates on cash and cash equivalents	(10,711)	(9,162)
Increase (decrease) in cash and cash equivalents	102,320	(39,579)
Cash and cash equivalents, beginning of period	507,972	495,524
Cash and cash equivalents, end of period	<u>\$ 610,292</u>	<u>\$ 455,945</u>

(4) 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.

(5) Leased assets/ operating leases (lessee)

Effective from 2018

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.

(6) Employee benefits

Pensions

Defined benefit plans

Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

(7) Income tax

- A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

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

There have been no significant change as of September 30, 2019. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2018.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Cash on hand and revolving funds	\$ 599	\$ 588	\$ 541
Checking accounts	26	26	26
Demand deposits	1,204,281	1,293,185	942,139
Total	<u>\$ 1,204,906</u>	<u>\$ 1,293,799</u>	<u>\$ 942,706</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 at fair value through profit or loss

Items	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current items:			
Financial assets mandatorily at fair value through profit or loss	\$ 222,945	\$ 277,915	\$ 32,895
Beneficiary certificates	1,050	815	618
Valuation adjustment	<u>\$ 223,995</u>	<u>\$ 278,730</u>	<u>\$ 33,513</u>

A. The Group recognized net gain of \$300, \$321, \$899 and \$2,108 on financial assets and liabilities designated as at fair value through profit or loss for the three-month periods ended 2019 and 2018, and for the nine-month periods 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

Items	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Non-current items:			
Equity instruments			
Non-Listed stocks	\$ 68,875	\$ 68,875	\$ 68,875
Valuation adjustment	15,128	56,149	55,336
	<u>\$ 84,003</u>	<u>\$ 125,024</u>	<u>\$ 124,211</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 September 30, 2019, December 31, 2018, and September 30, 2018, the fair value of such investments amounted to \$84,003, \$125,024 and \$124,211, 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 nine-month period ended September 30, 2019.
- 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>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
<u>Equity instruments at fair value through other comprehensive income:</u>		
Fair value change recognised in other comprehensive income	\$ 1,899	\$ 3,860
Cumulative gains (losses) reclassified to retained earnings due to derecognition	\$ -	\$ -
<u>Equity instruments at fair value through other comprehensive income:</u>	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Fair value change recognised in other comprehensive income	(\$ 34,688)	\$ 9,162
Cumulative gains (losses) reclassified to retained earnings due to derecognition	\$ -	\$ 14,390

- D. As at September 30, 2019, December 31, 2018, and September 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$84,003, \$125,024 and \$124,211, respectively.

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

(4) Financial assets at amortized cost

<u>Items</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current items:			
Time deposits	\$ 798,035	\$ 860,861	\$ 804,409
Non-current items:			
Time deposits	22,254	26,605	17,226
	<u>\$ 820,289</u>	<u>\$ 887,466</u>	<u>\$ 821,635</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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes receivable	\$ 65,327	\$ 44,893	\$ 31,468
Accounts receivable	\$ 2,179,937	\$ 1,911,680	\$ 1,977,329
Less: allowance for bad debts	(174,077)	(124,279)	(150,090)
	<u>\$ 2,005,860</u>	<u>\$ 1,787,401</u>	<u>\$ 1,827,239</u>

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

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Without past due	\$ 1,778,885	\$ 65,327	\$ 1,577,280	\$ 44,893
Up to 30 days	46,554	-	33,186	-
31 to 90 days	101,136	-	120,211	-
91 to 180 days	84,507	-	44,389	-
Over 181 days	168,855	-	136,614	-
	<u>\$ 2,179,937</u>	<u>\$ 65,327</u>	<u>\$ 1,911,680</u>	<u>\$ 44,893</u>

	<u>September 30, 2018</u>	
	Accounts receivable	Notes receivable
Without past due	\$ 1,622,138	\$ 31,468
Up to 30 days	64,234	-
31 to 90 days	51,614	-
91 to 180 days	72,101	-
Over 181 days	167,242	-
	<u>\$ 1,977,329</u>	<u>\$ 31,468</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>September 30, 2019</u>		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 154,708	(\$ 14,581)	\$ 140,127
Work in process	715,744	(108,003)	607,741
Finished goods	259,911	(23,394)	236,517
Inventory in transit	6,132	-	6,132
Total	<u>\$ 1,136,495</u>	<u>(\$ 145,978)</u>	<u>\$ 990,517</u>

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 130,299	(\$ 13,766)	\$ 116,533
Work in process	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>

	September 30, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 192,476	(\$ 13,905)	\$ 178,571
Work in process	841,758	(64,304)	777,454
Finished goods	147,147	(17,045)	130,102
Inventory in transit	4,996	-	4,996
Total	<u>\$ 1,186,377</u>	<u>(\$ 95,254)</u>	<u>\$ 1,091,123</u>

The cost of inventories recognized as expense for the period:

	For the three-month period ended September 30, 2019	For the three-month period ended September 30, 2018
Cost of goods sold	\$ 854,337	\$ 813,101
Loss on (gain on reversal of) decline in market value	14,946 (	4,683)
	-	-
	<u>\$ 869,283</u>	<u>\$ 808,418</u>
	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
Cost of goods sold	\$ 2,314,414	\$ 2,619,425
Loss on (gain on reversal of) decline in market value	(29,296)	12,177
	6,573	-
	<u>\$ 2,291,691</u>	<u>\$ 2,631,602</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

	September 30, 2019	December 31, 2018	September 30, 2018
Associates			
Gallant Biotech (Suzhou) Co., Ltd.	\$ 10,735	\$ -	\$ -
Utron Technologies Corp	26,725	-	-
Sunengine Co., Ltd.	31,182	27,337	29,196
Total	<u>\$ 68,642</u>	<u>\$ 27,337</u>	<u>\$ 29,196</u>

A. 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 September 30, 2019, the carrying amount of the Group's individually immaterial associates amounted to \$68,642.

	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
Profit for the period from continuing operations	(\$ 32,637)	(\$ 105,271)
Profit or loss for the period from discontinued operations	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>(\$ 32,637)</u>	<u>(\$ 105,271)</u>

(8) Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leased assets</u>	<u>Others</u>	<u>Construction in progress and equipment under installation</u>	<u>Total</u>
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	-	81	775	3,561	-	1,160	-	5,577
Disposals	-	-	-	(200)	-	(360)	-	(560)
Depreciation charge	-	(9,211)	(3,824)	(4,925)	(978)	(3,209)	-	(22,147)
Transferred out due to consolidated	-	-	(1,730)	(1,490)	-	(792)	(6,094)	(10,106)
Net exchange differences	-	2	(422)	(102)	-	(38)	65	(495)
Closing net book amount as at September 30	<u>\$ 39,130</u>	<u>\$ 452,405</u>	<u>\$ 26,572</u>	<u>\$ 15,461</u>	<u>\$ 49,648</u>	<u>\$ 11,550</u>	<u>\$ -</u>	<u>\$ 594,766</u>
At September 30, 2019								
Cost	\$ 39,130	\$ 593,813	\$ 117,329	\$ 35,929	\$ 65,682	\$ 28,712	\$ -	\$ 880,595
Accumulated depreciation and impairment	-	(141,408)	(90,757)	(20,468)	(16,034)	(17,162)	-	(285,829)
	<u>\$ 39,130</u>	<u>\$ 452,405</u>	<u>\$ 26,572</u>	<u>\$ 15,461</u>	<u>\$ 49,648</u>	<u>\$ 11,550</u>	<u>\$ -</u>	<u>\$ 594,766</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	466	4,435	-	10,892	1,314	18,821
Disposals	-	-	(446)	(521)	-	(1,819)	-	(2,786)
Reclassifications	-	47,391	-	-	(38,983)	(217)	(8,191)	-
Depreciation charge	-	(9,176)	(2,961)	(2,416)	(1,209)	(7,885)	-	(23,647)
Net exchange differences	-	6	(551)	(167)	-	(175)	-	(887)
Closing net book amount as at September 30	<u>\$ 39,130</u>	<u>\$ 464,689</u>	<u>\$ 20,903</u>	<u>\$ 11,731</u>	<u>\$ 50,971</u>	<u>\$ 28,736</u>	<u>\$ -</u>	<u>\$ 616,160</u>
At September 30, 2018								
Cost	\$ 39,130	\$ 598,412	\$ 101,914	\$ 24,259	\$ 66,693	\$ 71,816	\$ -	\$ 902,224
Accumulated depreciation and impairment	-	(133,723)	(81,011)	(12,528)	(15,722)	(43,080)	-	(286,064)
	<u>\$ 39,130</u>	<u>\$ 464,689</u>	<u>\$ 20,903</u>	<u>\$ 11,731</u>	<u>\$ 50,971</u>	<u>\$ 28,736</u>	<u>\$ -</u>	<u>\$ 616,160</u>

A. Amount of borrowing costs capitalized as part of property, plant and equipment were \$0 for the three-month periods ended September 30, 2019 and 2018 and for the nine-month periods ended September 30, 2019 and 2018, respectively.

B. The significant components of buildings include main plants improvement and structure, which are depreciated over 10 and 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:

	At September 30, 2019	For the three-month period ended September 30, 2019	For the nine-month period ended September 30, 2019
	<u>Carrying amount</u>	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Land	\$ 215,914	(\$ 1,506)	(\$ 4,517)
Buildings	34,681	(3,506)	(10,545)
Transportation equipment (business vehicles)	34	(34)	(101)
Office equipment (multifunction printers)	311	(59)	(178)
	<u>\$ 250,940</u>	<u>(\$ 5,105)</u>	<u>(\$ 15,341)</u>

C. For the three-month periods ended September 30, 2019 and for the nine-month periods ended September 30, 2019, the Group's total cash outflow for leases were \$0 and \$0, respectively.

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

	For the three-month period ended September 30, 2019	For the nine-month period ended September 30, 2019
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 1,280	\$ 3,857
Expense on short-term lease contracts	3,448	10,413
Expense on leases of low-value assets	30	90

E. For the nine-month period ended September 30, 2019, the Group's total cash outflow for leases was \$28,080.

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

Type of borrowings	<u>September 30, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	<u>\$ 1,021,176</u>	1.1254%~3.2%	None
Type of borrowings	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	<u>\$ 735,121</u>	1.20%~3.83%	None
Type of borrowings	<u>September 30, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	<u>\$ 615,121</u>	1.2%~3.24%	None

(11) Accounts payable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts payable	\$ 1,038,387	\$ 1,398,090	\$ 1,102,575
Estimated accounts payable	102,645	164,452	174,114
	<u>\$ 1,141,032</u>	<u>\$ 1,562,542</u>	<u>\$ 1,276,689</u>

(12) Other payables

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accrued salaries	\$ 157,814	\$ 196,555	\$ 187,426
Accrued employees' bonuses and directors' remuneration	72,898	98,758	77,651
Payables on equipment - Fixed assets	1,269	6,239	5,457
Payables on equipment - Intangible assets	215	1,557	461
Others	82,437	91,555	82,788
	<u>\$ 314,633</u>	<u>\$ 394,664</u>	<u>\$ 353,783</u>

(13) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>September 30, 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	\$ 24,788
Unsecured borrowing	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	6,618
Mortgage borrowings	Borrowing period is from September 27, 2019 to September 27, 2021; interest is repayable monthly and principal is repayable in September, 2021..	1.33%	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	78,321
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	<u>17,250</u>
				476,977
Less: current portion				(19,941)
				<u>\$ 457,036</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 borrowing	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	<u>23,000</u>
				507,300
Less: current portion				(<u>33,861</u>)
				<u>\$ 473,439</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>September 30, 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	\$ 31,586
Unsecured borrowing	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	8,429
Unsecured borrowing	Borrowing period is from January 25, 2017 to January 25, 2019; interest is repayable monthly and principal is repayable in January 2019.	1.90%	None	20,000
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	220,000
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	18,333
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	84,464
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	<u>23,000</u>
				405,812
Less: current portion				(58,835)
				<u>\$ 346,977</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%, respectively 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) For the aforementioned pension plan, the Group recognized pension costs of \$376, \$296, \$884 and \$888 for the three-month periods ended September 30, 2019 and 2018, and for the nine-month periods ended September 30, 2019 and 2018, respectively.
 - (c) Expected contributions to the defined benefit pension plans of the Group for the year ended December 31, 2020 are \$8,141.
- 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 Corpration Ltd., Gallant Micro Machining (Malaysia) Sdn. Bhd., Ltd., King Mechatronics Co., Ltd., Chun-Zhun Enterprise Corpration Ltd., 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 three-month periods ended September 30, 2019 and 2018, and for the nine-month periods ended September 30, 2019 and 2018, were \$8,837, \$8,503, \$27,072 and \$25,649, respectively.

(15) Share capital

As of September 30, 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	
	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
At January 1/ At September 30	165,136	165,136

(15) 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.

Details of Capital surplus:

	<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 September 30, 2019	\$ 127,167	\$ 31,399	\$ 11,750	\$ 24,329	\$ 4,446	\$ 199,091
At January 1, 2018 and At September 30, 2018	\$ 127,167	\$ 31,399	\$ 11,750	\$ 12,003	\$ 4,446	\$ 186,765

(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	\$ -	\$ 19,790	\$ -
Special reserve	-	-	(45,182)	-
Cash dividends	214,677	1.300	200,966	1.217
Total	<u>\$ 251,687</u>	<u>\$ 1.300</u>	<u>\$ 175,574</u>	<u>\$ 1.217</u>

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

(18) Other equity items

	<u>For the nine-month period ended September 30, 2019</u>		
	<u>Unrealised gains (losses) on valuation</u>	<u>Currency translation</u>	<u>Total</u>
At January 1	\$ 31,815	(\$ 64,286)	(\$ 32,471)
Revaluation	(37,201)	-	(37,201)
Currency translation differences:—group	-	(25,531)	(25,531)
At September 30	<u>(\$ 5,386)</u>	<u>(\$ 89,817)</u>	<u>(\$ 95,203)</u>

	<u>For the nine-month period ended September 30, 2018</u>		
	<u>Unrealised gains (losses) on valuation</u>	<u>Currency translation</u>	<u>Total</u>
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	(2,235)	-	(2,235)
Disposal transferred to retained earnings	14,390	-	14,390
Currency translation differences:—group	-	(26,704)	(26,704)
At September 30	<u>\$ 31,519</u>	<u>(\$ 71,891)</u>	<u>(\$ 40,372)</u>

(19) Operating revenue

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Revenue from Contracts with Customers	<u>\$ 1,284,179</u>	<u>\$ 1,079,897</u>
	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Revenue from Contracts with Customers	<u>\$ 3,182,367</u>	<u>\$ 3,657,830</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:

<u>For the three-month period ended September 30, 2019</u>	<u>Taiwan</u>	<u>China</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	\$ 261,533	\$ 1,071,271	\$ 2,849	\$ 1,335,653
Inter-segment revenue	40,665	(92,139)	-	(51,474)
Revenue from external customer contracts	<u>\$ 302,198</u>	<u>\$ 979,132</u>	<u>\$ 2,849</u>	<u>\$ 1,284,179</u>
Timing of revenue recognition				
At a point in time	\$ 300,041	\$ 968,683	\$ 2,636	\$ 1,271,360
Over time	2,157	10,449	213	12,819
	<u>\$ 302,198</u>	<u>\$ 979,132</u>	<u>\$ 2,849</u>	<u>\$ 1,284,179</u>

For the three-month period ended September 30, 2018				
	Taiwan	China	Other	Total
Total segment revenue	\$ 519,827	\$ 638,271	\$ 39,921	\$ 1,198,019
Inter-segment revenue	(97,797)	(20,325)	-	(118,122)
Revenue from external customer contracts	<u>\$ 422,030</u>	<u>\$ 617,946</u>	<u>\$ 39,921</u>	<u>\$ 1,079,897</u>
Timing of revenue recognition				
At a point in time	\$ 418,774	\$ 589,882	\$ 39,921	\$ 1,048,577
Over time	<u>3,256</u>	<u>28,064</u>	<u>-</u>	<u>31,320</u>
	<u>\$ 422,030</u>	<u>\$ 617,946</u>	<u>\$ 39,921</u>	<u>\$ 1,079,897</u>
For the nine-month period ended September 30, 2019				
	Taiwan	China	Other	Total
Total segment revenue	\$ 1,128,912	\$ 2,196,050	\$ 33,044	\$ 3,358,006
Inter-segment revenue	(77,624)	(98,015)	-	(175,639)
Revenue from external customer contracts	<u>\$ 1,051,288</u>	<u>\$ 2,098,035</u>	<u>\$ 33,044</u>	<u>\$ 3,182,367</u>
Timing of revenue recognition				
At a point in time	\$ 1,039,446	\$ 2,066,553	\$ 32,002	\$ 3,138,001
Over time	<u>11,842</u>	<u>31,482</u>	<u>1,042</u>	<u>44,366</u>
	<u>\$ 1,051,288</u>	<u>\$ 2,098,035</u>	<u>\$ 33,044</u>	<u>\$ 3,182,367</u>
For the nine-month period ended September 30, 2018				
	Taiwan	China	Other	Total
Total segment revenue	\$ 1,932,118	\$ 1,951,807	\$ 101,740	\$ 3,985,665
Inter-segment revenue	(264,703)	(63,132)	-	(327,835)
Revenue from external customer contracts	<u>\$ 1,667,415</u>	<u>\$ 1,888,675</u>	<u>\$ 101,740</u>	<u>\$ 3,657,830</u>
Timing of revenue recognition				
At a point in time	\$ 1,656,067	\$ 1,855,216	\$ 101,127	\$ 3,612,410
Over time	<u>11,348</u>	<u>33,459</u>	<u>613</u>	<u>45,420</u>
	<u>\$ 1,667,415</u>	<u>\$ 1,888,675</u>	<u>\$ 101,740</u>	<u>\$ 3,657,830</u>

B. Contract liabilities

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

	September 30, 2019	December 31, 2018	September 30, 2018
Contract liabilities:			
Contract liabilities-Deposit	<u>\$ 217,477</u>	<u>\$ 68,921</u>	<u>\$ 57,387</u>

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

	For the three-month period ended September 30, 2019	For the three-month period ended September 30, 2018
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Deposit	\$ -	\$ 14,764
Total	<u>\$ -</u>	<u>\$ 14,764</u>

	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Deposit	\$ 64,211	\$ 147,451
Total	<u>\$ 64,211</u>	<u>\$ 147,451</u>

(20) Other income

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Interest income	\$ 3,478	\$ 3,838
Rental revenue	3,846	3,950
Government grants revenue	1,667	5,067
Others	2,612	13,657
Total	<u>\$ 11,603</u>	<u>\$ 26,512</u>

	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Interest income	\$ 17,306	\$ 12,099
Rental revenue	11,585	12,663
Government grants revenue	9,030	14,862
Dividend income	2,889	1,868
Others	5,926	15,066
Total	<u>\$ 46,736</u>	<u>\$ 56,558</u>

(21) Other gains and losses

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Gains (losses) on disposal of property, plant and equipment	\$ 2	\$ 1
Gains (losses) on disposal of investments	(26)	-
Net currency exchange gains(losses)	12,776	3,035
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	300	321
Gains on reversal of (loss on) other impairment	(952)	-
Others gains and losses	(2)	(3)
Total	<u>\$ 12,098</u>	<u>\$ 3,354</u>

	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
Gains (losses) on disposal of property, plant and equipment	(\$ 211)	(\$ 37)
Gains (losses) on disposal of investments	3,045	-
Net currency exchange gains(losses)	29,798	28,039
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	899	2,108
Gains on reversal of (loss on) other impairment	(952)	-
Others gains and losses	(14)	(73)
Total	<u>\$ 32,565</u>	<u>\$ 30,037</u>

(22) Finance costs

	For the three-month period ended September 30, 2019	For the three-month period ended September 30, 2018
Interest expense	<u>\$ 9,180</u>	<u>\$ 5,044</u>
	For the nine-month period ended September 30, 2019	For the nine-month period ended September 30, 2018
Interest expense	<u>\$ 26,704</u>	<u>\$ 15,867</u>

(23) Expenses by nature

	For the three-month period ended September 30, 2019	For the three-month period ended September 30, 2018
Employee benefit expense	<u>\$ 280,897</u>	<u>\$ 215,685</u>
Depreciation charges	<u>\$ 12,344</u>	<u>\$ 7,990</u>
Amortization charges on intangible assets	<u>\$ 10,542</u>	<u>\$ 10,362</u>
	For the nine-month period ended June 30, 2019	For the nine-month period ended June 30, 2018
Employee benefit expense	<u>\$ 673,299</u>	<u>\$ 661,663</u>
Depreciation charges	<u>\$ 37,488</u>	<u>\$ 23,647</u>
Amortization charges on intangible assets	<u>\$ 31,910</u>	<u>\$ 31,352</u>

(24) Employee benefit expense

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Wages and salaries	\$ 247,096	\$ 185,172
Labour and health insurance fees	16,722	14,010
Pension costs	9,213	8,799
Other personnel expenses	7,866	7,704
	<u>\$ 280,897</u>	<u>\$ 215,685</u>
	<u>For the nine-month period ended June 30, 2019</u>	<u>For the nine-month period ended June 30, 2018</u>
Wages and salaries	\$ 573,323	\$ 568,360
Labour and health insurance fees	48,666	43,276
Pension costs	27,956	26,537
Other personnel expenses	23,354	23,490
	<u>\$ 673,299</u>	<u>\$ 661,663</u>

- A. Under 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 three-month periods ended September 30, 2019 and 2018 and for the nine-month periods ended September 30, 2019 and 2018, employees' remuneration was accrued at \$23,769, \$6,841, \$28,321 and \$40,644, respectively; directors' remuneration was accrued at \$4,754, \$1,368, \$5,664 and \$8,129, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation of \$54,418 and directors' and supervisors' of \$9,567 remuneration for June 25, 2019 as resolved by the meeting of Board of Directors were 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:

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Current tax:		
Current tax on profits for the period	\$ 43,076	\$ 14,455
Tax on undistributed surplus earnings	(1,117)	-
Prior year income tax (over) underestimate	<u>-</u>	<u>(4)</u>
Total current tax	<u>41,959</u>	<u>14,451</u>
Deferred tax:		
Origination and reversal of temporary differences	8,266	11,201
Impact of changing in tax rate	<u>-</u>	<u>-</u>
Total deferred tax	<u>8,266</u>	<u>11,201</u>
Income tax expense	<u>\$ 50,225</u>	<u>\$ 25,652</u>

	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Current tax:		
Current tax on profits for the period	\$ 55,644	\$ 66,169
Tax on undistributed surplus earnings	5,296	-
Prior year income tax (over) underestimate	<u>(11,927)</u>	<u>(11,851)</u>
Total current tax	<u>49,013</u>	<u>54,318</u>
Deferred tax:		
Origination and reversal of temporary differences	9,099	18,581
Impact of changing in tax rate	<u>-</u>	<u>(6,375)</u>
Total deferred tax	<u>9,099</u>	<u>12,206</u>
Income tax expense	<u>\$ 58,112</u>	<u>\$ 66,524</u>

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

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Share of other comprehensive income of associates	<u>\$ 381</u>	<u>\$ 7,008</u>
	<u>For the nine-month period ended June 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Share of other comprehensive income of associates	<u>(\$ 1,866)</u>	<u>\$ 11,302</u>

- B. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- C. 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 assessed the impact of the change in income tax rate.

(26) Earnings per share

	For the three-month period ended September 30, 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	\$ 142,977	165,136	\$ 0.86
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
- Employees' bonus	-	1,388	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 142,977	166,524	\$ 0.86
	For the three-month period ended September 30, 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	\$ 45,768	165,136	\$ 0.28
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
- Employees' bonus	-	254	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 45,768	165,390	\$ 0.28

	For the nine-month period ended September 30, 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	\$ 190,647	165,136	\$ 1.15
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares - Employees' bonus	-	2,172	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 190,647	167,308	\$ 1.14

	For the nine-month period ended September 30, 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	\$ 324,155	165,136	\$ 1.96
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares - Employees' bonus	-	1,887	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 324,155	167,023	\$ 1.94

(27) Transactions with non-controlling interest

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:

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

(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>	<u>September 30, 2018</u>
Not later than one year	\$ 14,961	\$ 14,961
Later than one year but not later than five years	34,909	23,689
Later than five years	-	-
	<u>\$ 49,870</u>	<u>\$ 38,650</u>

B. The Group leases in plant assets under non-cancellable operating lease agreements. The lease terms are between 2013 and 2024 years. The Group recognized rental expenses of \$6,441 and \$18,976 for the three-month periods ended September 30, 2018 and for the nine-month periods ended September 30, 2018, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Not later than one year	\$ 20,222	\$ 17,731
Later than one year but not later than five years	31,412	47,124
Later than five years	31,865	13,852
	<u>\$ 83,499</u>	<u>\$ 78,707</u>

(29) Supplemental cash flow information

Investing activities with partial cash payments:

	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Purchase of property, plant and equipment	\$ 5,577	\$ 18,821
Add: opening balance of payable on equipment	6,239	8,675
Less: ending balance of payable on equipment	(1,269)	(5,457)
Cash paid during the period	<u>\$ 10,547</u>	<u>\$ 22,039</u>

(30) Changes in liabilities from financing activities

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Guarantee deposits received</u>	<u>Leases liabilities</u>	<u>Liabilities from financing activities-gross</u>
At January 1, 2019	\$ 735,121	\$ 507,300	\$ 2,435	\$ 267,264	\$ 1,512,120
Changes in cash flow from financing activities	286,055	(30,323)	(99)	(17,577)	238,056
Changes in other non-cash items	-	-	-	2,801	2,801
At September 30, 2019	<u>\$ 1,021,176</u>	<u>\$ 476,977</u>	<u>\$ 2,336</u>	<u>\$ 252,488</u>	<u>\$ 1,752,977</u>

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Guarantee deposits received</u>	<u>Liabilities from financing activities-gross</u>
At January 1, 2018	\$ 734,730	\$ 439,907	\$ 4,103	\$ 1,178,740
Changes in cash flow from financing activities	(119,609)	(34,095)	(1,668)	(155,372)
At September 30, 2018	<u>\$ 615,121</u>	<u>\$ 405,812</u>	<u>\$ 2,435</u>	<u>\$ 1,023,368</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.	Associates
Hitachi Zosen GPM Technology (Suzhou) Co.,Ltd.	Associates
Sunengine Co., Ltd.	Associates
Fujian Chengzhe Automation Technology Co.Ltd	Substantive related party

(2) Significant related party transactions

A. Purchases:

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Purchases of goods:		
Substantive related party	<u>\$ 3,483</u>	<u>\$ 3,488</u>
	<u>For the six-month period ended September 30, 2019</u>	<u>For the six-month period ended September 30, 2018</u>
Purchases of goods:		
Substantive related party	<u>\$ 9,085</u>	<u>\$ 20,496</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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts payable:			
Substantive related party	\$ 5,271	\$ 8,643	\$ 8,003

C. Other transactions:

	<u>For the three-month period ended September 30, 2019</u>		<u>For the three-month period ended September 30, 2018</u>	
	<u>Items</u>	<u>Amount</u>	<u>Items</u>	<u>Amount</u>
Substantive related party	Research and development expenses	\$ 167	Research and development expenses	\$ 515
Associates	rental expenses	15	rental expenses	15
Associates	Sales of services	-	Sales of services	-
	<u>For the nine-month period ended September 30, 2019</u>		<u>For the nine-month period ended September 30, 2018</u>	
	<u>Items</u>	<u>Amount</u>	<u>Items</u>	<u>Amount</u>
Substantive related party	Research and development expenses	\$ 1,234	Research and development expenses	\$ 2,789
Associates	rental expenses	45	rental expenses	45
Associates	Sales of services	199	Sales of services	-

D. Loans to /from related parties:

Loans to related parties:

a. Outstanding balance:

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Associates	\$ 30,000	\$ -

b. Interest income:

	<u>For the three-month period ended September 30, 2019</u>		<u>For the three-month period ended September 30, 2018</u>	
	<u>Items</u>	<u>Amount</u>	<u>Items</u>	<u>Amount</u>
Associates		\$ 68		\$ -
	<u>For the nine-month period ended September 30, 2019</u>		<u>For the nine-month period ended September 30, 2018</u>	
	<u>Items</u>	<u>Amount</u>	<u>Items</u>	<u>Amount</u>
Associates		\$ 68		\$ -

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

	<u>For the three-month period ended September 30, 2019</u>	<u>For the three-month period ended September 30, 2018</u>
Payroll and Salaries and other short-term employee benefits	\$ 18,802	\$ 9,756
Post-employment benefits	327	351
Total	<u>\$ 19,129</u>	<u>\$ 10,107</u>
	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Payroll and Salaries and other short-term employee benefits	\$ 43,868	\$ 31,652
Post-employment benefits	943	875
Total	<u>\$ 44,811</u>	<u>\$ 32,527</u>

8. PLEGGED ASSETS

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

<u>Pledged asset</u>	<u>Book value</u>			<u>Purpose</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>	
Time deposits (shown as "financial assets at amortised cost-current")	\$ 6,166	\$ 9,336	\$ 10,968	Exercise guarantee for construction
Time deposits (shown as "financial assets at amortised cost non-current")	22,254	17,269	17,226	Exercise guarantee for construction and customs deposit
Property, plant and equipment	<u>533,980</u>	<u>540,058</u>	<u>543,460</u>	Long-term borrowings
	<u>\$ 562,400</u>	<u>\$ 566,663</u>	<u>\$ 571,654</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingent liabilities

- A. As of September 30, 2019, December 31, 2018 and September 30, 2018, the bank open a guarantee letter for the Company due to business tender and guarantee for construction amounting to \$134,769, \$173,540 and \$144,583, 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.

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

No significant change was made during the nine-month period ended September 30, 2019. For more information, please refer to note 12 in the Group's consolidated financial statements for the year ended December 31, 2018.

(2) Financial instruments

A. Financial instruments by category

	September 30, 2019	December 31, 2018	September 30, 2018
<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	\$ 223,995	\$ 278,730	\$ 33,513
Financial assets at fair value through other comprehensive income	84,003	125,024	124,211
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	1,204,906	1,293,799	942,706
Financial assets at amortised cost	820,289	887,466	821,635
Investments in debt instruments without active markets	-	-	-
Notes receivables	65,327	44,893	31,468
Accounts receivables	2,005,860	1,787,401	1,827,239
Other accounts receivables	47,621	15,499	21,994
Guarantee deposits paid	4,075	6,939	8,828
	<u>\$ 4,456,076</u>	<u>\$ 4,439,751</u>	<u>\$ 3,811,594</u>
<u>Financial liabilities</u>			
Financial liabilities at amortised cost			
Short-term borrowings	\$ 1,021,176	\$ 735,121	\$ 615,121
Accounts payable	1,146,303	1,571,185	1,284,692
Other accounts payable	314,633	394,664	353,783
Leases liabilities	252,488	-	-
Long-term borrowings (including current portion)	476,977	507,300	405,812
Guarantee deposits received	2,336	2,435	2,435
	<u>\$ 3,213,913</u>	<u>\$ 3,210,705</u>	<u>\$ 2,661,843</u>

B. Financial risk management policies

No significant change was made during the nine-month period ended September 30, 2019. For more information, please refer to note 12 in the Group's consolidated financial statements for the year ended December 31, 2018.

C. Significant financial risks and degrees of financial risks

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2018, except for the items explained below:

(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:

	September 30, 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	\$ 65,813	31.39	\$ 206,586
JPY:NTD	109,605	0.2947	32,300
RMB:NTD	5,958	4.35	25,918
USD: RMB	3,236	7.1422	100,525
<u>Non-monetary items: None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 27,516	31.39	\$ 863,735
JPY:NTD	140,535	0.2947	41,416
RMB:NTD	2,160	4.35	9,394
<u>Non-monetary items: None</u>			

				December 31, 2018		
				Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
	\$	41,074		30.72	\$	1,261,574
		305,218		0.2782		84,912
		33,817		4.472		151,229
		2,559		6.868		78,603
<u>Non-monetary items: None</u>						
<u>Financial liability</u>						
<u>Monetary items</u>						
	\$	20,226		30.72	\$	621,250
		327,821		0.2782		91,200
		7,293		4.472		32,616
<u>Non-monetary items: None</u>						
				September 30, 2018		
				Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
	\$	32,522		30.53	\$	992,745
		703,213		0.2692		189,305
		40,338		4.436		178,940
		250		22.33		5,593
		9		35.48		336
		5,777		6.8812		176,331
<u>Non-monetary items: None</u>						
<u>Financial liability</u>						
<u>Monetary items</u>						
	\$	21,350		30.53	\$	651,723
		220,214		0.2692		59,282
		5,541		4.436		24,581
		283		35.48		10,037
		48		6.8812		1,472
<u>Non-monetary items: None</u>						

- ii . The unrealized exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three-month periods ended September 30, 2019 and 2018 and for the nine-month periods ended September 30, 2019 and 2018, amounted \$12,776, \$3,035, \$29,798 and \$28,039, respectively.

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

For the nine-month period ended September 30, 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%	\$ 2,066	\$ -
JPY:NTD	1%	323	-
RMB:NTD	1%	259	-
USD: RMB	1%	1,005	-
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 8,637)	\$ -
JPY:NTD	1%	(414)	-
RMB:NTD	1%	(94)	-

For the nine-month period ended September 30, 2018			
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%	\$ 9,927	\$ -
JPY:NTD	1%	1,893	-
RMB:NTD	1%	1,789	-
SGD:NTD	1%	56	-
EUR:NTD	1%	3	-
USD: RMB	1%	1,763	-
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 6,517)	\$ -
JPY:NTD	1%	(593)	-
RMB:NTD	1%	(246)	-
EUR:NTD	1%	(100)	-
USD: RMB	1%	(15)	-

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 periods ended September 30, 2019 and 2018 would have increased/decreased by \$2,240 and \$335, 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 \$840 and \$1,242, 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 periods ended September 30, 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 nine-month periods ended September 30, 2019 and 2018 would have increased/decreased by \$8,914 and \$7,282, 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. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- 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. On September 30, 2019, December 31, 2018 and September 30, 2018, respectively, the provision matrix is as follows:

At September 30, 2019	Without past due	Up to 0 -90 days	Up to 91 -120 days	Up to 120 days	Total
Expected loss rate	0.00%-0.06%	0.01%-28.02%	0.26%-32.67%	0.95%-100%	
Total book value	\$ 1,779,552	\$ 147,023	\$ 5,233	\$ 248,129	\$2,179,937
Loss allowance	\$ 5,003	\$ 33,981	\$ 897	\$ 134,196	\$ 174,077

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

At September 30, 2018	Without past due	Up to 0 -90 days	Up to 91 -120 days	Up to 120 days	Total
Expected loss rate	0.01%-0.35%	0.01%-13.77%	0.13%-16.87%	0.46%-100%	
Total book value	\$ 1,622,138	\$ 115,847	\$ 34,671	\$ 204,673	\$1,977,329
Loss allowance	\$ 1,469	\$ 4,244	\$ 4,993	\$ 139,384	\$ 150,090

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

	<u>For the nine-month period ended September 30, 2019</u>	
	<u>Accounts receivable</u>	
At January 1	\$	124,279
Provision for impairment		64,966
Reversal of impairment loss	(	14,694)
Effect of foreign exchange	(	474)
At September 30	<u>\$</u>	<u>174,077</u>

	<u>For the nine-month period ended September 30, 2018</u>	
	<u>Accounts receivable</u>	
At January 1_IAS 39	\$	194,559
Adjustments under new standards		-
Provision for impairment		27,144
Reversal of impairment loss	(	70,837)
Effect of foreign exchange	(	776)
At September 30	<u>\$</u>	<u>150,090</u>

The abovementioned provision amounts took positive overall economic factor and other credit enhancement into account, thus, the reversal of impairment of credit loss are \$14,694 and \$70,837 for the nine-month period ended September 30, 2019 and 2018, respectively.

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

	<u>September 30, 2019</u>			
		<u>Lifetime</u>		
	<u>12 months</u>	<u>Significant increase in credit risk</u>	<u>Impairment of credit</u>	<u>Total</u>
Financial assets at amortised cost				
Group 1	\$ 101,147	\$ -	\$ -	\$ 101,147
Group 2	696,537	-	-	696,537
Group 3	22,605	-	-	22,605
	<u>\$ 820,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 820,289</u>

	<u>December 31, 2018</u>			
		<u>Lifetime</u>		
	<u>12 months</u>	<u>Significant increase in credit risk</u>	<u>Impairment of credit</u>	<u>Total</u>
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>

	September 30, 2018			
	12 months	Lifetime		Total
		Significant increase in credit risk	Impairment of credit	
Financial assets at amortised cost				
Group 1	\$ 793,440	\$ -	\$ -	\$ 793,440
Group 2	10,969	-	-	10,969
Group 3	17,226	-	-	17,226
	<u>\$ 821,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 821,635</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 September 30, 2019, December 31, 2018 and September 30, 2018, the Group held money market position of \$2,226,311, \$2,432,776 and \$1,769,093, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The Company has the following undrawn borrowing facilities:

	September 30, 2019	December 31, 2018	September 30, 2018
Floating rate:			
Expiring within one year	\$ 1,584,055	\$ 1,464,200	\$ 1,610,296
Expiring beyond one year	50,000	20,000	150,000
	<u>\$ 1,634,055</u>	<u>\$ 1,484,200</u>	<u>\$ 1,760,296</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2019. 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:

September 30, 2019	<u>Less than 3 months</u>	<u>3 months and 1year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 619,208	\$ 401,968	\$ -	\$ -	\$ -
Accounts payable	504,611	191,376	-	444,258	787
Other payables	209,769	104,033	174	544	113
Leases liabilities	5,790	16,251	20,595	35,071	247,626
Long-term borrowings (including current portion)	5,180	21,087	376,018	42,090	50,311

Non-derivative financial liabilities:

December 31, 2018	<u>Less than 3 months</u>	<u>3 months and 1year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
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

Non-derivative financial liabilities:

September 30, 2018	<u>Less than 3 months</u>	<u>3 months and 1year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 465,243	\$ 149,878	\$ -	\$ -	\$ -
Accounts payable	764,054	330,465	-	182,170	-
Other payables	238,918	113,027	1,348	490	-
Long-term borrowings (including current portion)	10,686	53,459	244,598	56,611	57,192

Derivative financial liabilities:

September 30, 2019, December 31, 2018, September 30, 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:

September 30, 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	\$ 223,995	\$ -	\$ -	\$ 223,995
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	84,003	84,003
Total	<u>\$ 223,995</u>	<u>\$ -</u>	<u>\$ 84,003</u>	<u>\$ 307,998</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss: none				
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				
September 30, 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	\$ 33,513	\$ -	\$ -	\$ 33,513
Available-for-sale financial assets				
Equity securities	-	-	124,211	124,211
Total	<u>\$ 33,513</u>	<u>\$ -</u>	<u>\$ 124,211</u>	<u>\$ 157,724</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. 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 September 30, 2019, December 31, 2018 and September 30, 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 nine-month periods ended September 30, 2019 and 2018:

	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 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	(41,021)	(4,792)
At September 30	<u>\$ 84,003</u>	<u>\$ 124,211</u>

F. For the nine month periods ended September 30, 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:

	<u>September 30, 2019</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Derivative equity instrument: Unlisted shares	\$ 83,102	Market comparable companies	Price to book ratio multiple	0.74~3.04	The higher the multiple , the higher the fair value
	<u>December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
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
	<u>September 30, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Derivative equity instrument: Unlisted shares	\$ 62,912	Market comparable companies	Price to book ratio multiple	0.82~2.67	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:

			September 30, 2019			
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
		Change				
Input						
Financial assets						
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 726	(\$ 727)
			December 31, 2018			
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
		Change				
Input						
Financial assets						
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 634	(\$ 632)
			September 30, 2018			
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
		Change				
Input						
Financial assets						
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 621	(\$ 623)

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) Information about segment

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

Nine month ended September 30, 2019

	<u>Gallant Precision Machining Co., Ltd</u>	<u>Gallant-Rapid Corporation Ltd.</u>	<u>Gallant Micro. Machining Co., Ltd.</u>	<u>Gallant Precision Machinery (BVI)Ltd.</u>	<u>Chun-Zhun Enterprise Corporation (BVI)Ltd.</u>	<u>APEX-I International Co., Ltd.</u>	<u>elimination</u>	<u>Amount</u>
Revenue from external customers	<u>\$ 2,488,009</u>	<u>\$ 47,914</u>	<u>\$ 592,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,248</u>	<u>\$ -</u>	<u>\$ 3,182,367</u>
Inter-segment revenue	<u>\$ 5,959</u>	<u>\$ 113,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 119,103)</u>	<u>\$ -</u>
Segment income	<u>\$ 220,784</u>	<u>\$ 10,066</u>	<u>\$ 102,097</u>	<u>(\$ 2,769)</u>	<u>(\$ 357)</u>	<u>\$ 18,530</u>	<u>(\$ 65,210)</u>	<u>\$ 283,141</u>
Total segment assets	<u>\$ 5,266,272</u>	<u>\$ 328,083</u>	<u>\$ 1,616,701</u>	<u>\$ 366,990</u>	<u>\$ 13,634</u>	<u>\$ 109,177</u>	<u>(\$ 1,180,028)</u>	<u>\$ 6,520,829</u>

Nine month ended September 30, 2018

	<u>Gallant Precision Machining Co., Ltd</u>	<u>Gallant-Rapid Corporation Ltd.</u>	<u>Gallant Micro. Machining Co., Ltd.</u>	<u>Gallant Precision Machinery (BVI)Ltd.</u>	<u>Chun-Zhun Enterprise Corporation (BVI)Ltd.</u>	<u>APEX-I International Co., Ltd.</u>	<u>elimination</u>	<u>Amount</u>
Revenue from external customers	<u>\$ 2,869,086</u>	<u>\$ 75,831</u>	<u>\$ 698,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,675</u>	<u>\$ -</u>	<u>\$ 3,657,830</u>
Inter-segment revenue	<u>\$ 10,143</u>	<u>\$ 151,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 161,779)</u>	<u>\$ -</u>
Segment income	<u>\$ 283,107</u>	<u>(\$ 8,816)</u>	<u>\$ 161,040</u>	<u>(\$ 838)</u>	<u>(\$ 357)</u>	<u>(\$ 383)</u>	<u>(\$ 15,808)</u>	<u>\$ 417,945</u>
Total segment assets	<u>\$ 4,521,264</u>	<u>\$ 372,473</u>	<u>\$ 1,597,423</u>	<u>\$ 398,990</u>	<u>\$ 13,847</u>	<u>\$ 80,522</u>	<u>(\$ 1,197,898)</u>	<u>\$ 5,786,621</u>

(3) Reconciliation for segment income

- A. 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 nine-month periods ended September 30, 2019 and 2018 is provided as follows:

	<u>For the nine-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2018</u>
Reportable segments income/(loss)	\$ 348,351	\$ 433,753
Other	(65,210)	(15,808)
Income/(loss) before tax from continuing operations	<u>\$ 283,141</u>	<u>\$ 417,945</u>

- A. 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:

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Assets of reportable segments	\$ 7,700,857	\$ 6,984,519
Elimination of intersegment assets	(1,180,028)	(1,197,898)
Total assets	<u>\$ 6,520,829</u>	<u>\$ 5,786,621</u>

Table 1

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
FINANCINGS PROVIDED
FOR THE SIX MONTH PERIOD ENDED SEPTEMBER 30, 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	\$ 30,000	2.0%	Short-term financing	-	Operating need	-	Promised note	50,000	\$ 89,930	\$ 179,859	

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 2

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

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

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party(Note1)	Maximum Balance for the Period Party(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	\$ 466,173	\$ 180,000	\$ 150,000	\$ -	\$ -	6.40%	\$ 1,165,432	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)
SEPTEMBER 30, 2019

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

				September 30, 2019				
Held Company Name	Marketable Securities Type and Name	Relationship with the company	Financial Statement Account	Shares/Units	Carrying Value	Percentage of Ownership	Fair Value	Footnote
Gallant Precision Machining Co., Ltd.	Power Fund-class A	-	Financial assets at fair value through profit-current	40,000	\$ 3,765	-	\$ 3,772	
Gallant Precision Machining Co., Ltd.	Union Money Market	-	Financial assets at fair value through profit or loss-current	3,782,921	50,069	-	50,069	
Gallant Precision Machining Co., Ltd.	Jihsun Monetary Market Fund	-	Financial assets at fair value through profit or loss-current	6,739,952	100,129	-	100,129	
Gallant Precision Machining Co., Ltd.	FSITC Taiwan Money Market	-	Financial assets at fair value through profit or loss-current	4,564,989	70,032	-	70,032	
Gallant-Rapid Corporation Ltd.	Phoenix & Corporation	-	Financial assets at fair value through other comprehensive income-non-current	669,375	11,220	0.59	11,220	
King Mechatronics Co., Ltd.	POWER EVER ENTFRPRISES LIMITED	-	Financial assets at fair value through other comprehensive income-non-current	624,726	71,882	10.15	71,882	
APEX-I International Co., Ltd.	Shinyu Light Co., Ltd.	-	Financial assets at fair value through other comprehensive income-non-current	286,891	901	1.98	901	

Table 3

Table 4

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 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	Percentage of Consolidated Net Revenue or Total Assets(Note 3)
0	Gallant Precision Machining Co., Ltd	Gallant Precision Intelligence Technology Co., Ltd	1	Purchases	\$ 91,373	subject to the terms and conditions agreed upon by both parties 2.86
1	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Purchases	26,942	subject to the terms and conditions agreed upon by both parties 0.84
1	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Accounts payable	17,491	subject to the terms and conditions agreed upon by both parties 0.27
2	King Mechatronics Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Purchases	27,713	subject to the terms and conditions agreed upon by both parties 0.87
2	King Mechatronics Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Accounts payable	32,250	subject to the terms and conditions agreed upon by both parties 0.49

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 4

Table 5

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 NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2019			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Footnote
				September 30, 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	\$ 213,693	\$ 3,272	\$ 3,272	
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	364,374 (	1,172) (	1,172)	
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	80,905	14,805	14,805	
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	11,265 (	357) (	357)	
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	31,183	10,163	3,846	
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	514,307	78,197	44,721	
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	694,278	4,135	4,135	
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	2,841 (	33) (	33)	
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	26,725 (	19,647) (	2,815)	

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

Table 5

Table 6

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 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	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2019	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses	Carrying Amount as of September 30, 2019	Accumulated Inward Remittance of Earnings as of September 30, 2019	Footnote
					Outflow	Inflow							
Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	\$ 196,173	2	\$ 162,681	\$ -	\$ -	\$ 162,681	\$ 2,934	100.00	\$ 2,934	\$ 173,992	\$ -	Note2- 2.B
Gallant Precision Machinery (Xiamen) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	592,864	2	592,864	-	-	592,864	(1,120)	100.00	(1,120)	365,587	-	Note2- 2.B
Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	64,749	2	64,749	-	-	64,749	(297)	100.00	(297)	11,156	-	Note2- 2.B
CHUN-ZHUN Precision Machining(Guang Zhou Nan Sha)Corporation	-	-	2	50,502	-	-	50,502	-	-	-	-	-	Note2- 2.B
Suzhou Top Creation Machines Co.,Ltd.	PCB / FPC Wet Process Equipments	170,720	2	35,463	-	-	35,463	-	10.15	-	71,882	-	Note2- 2.B
Gallant Micro. Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	141,232	2	249,657	-	-	249,657	(162)	57.19	(93)	626,738	-	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.	165,300	3	-	-	-	-	(4,065)	30.00	-	-	-	Note2- 2.C
Gallant International Trading Co., Ltd.	Engaged in selling of mechanical equipment	30,450	3	-	-	-	-	(1,924)	100.00	(1,924)	6,485	-	Note2- 2.B
Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	17,400	3	-	-	-	-	(1,811)	100.00	(1,811)	841	-	Note2- 2.B
Gallant Precision Intelligence Technology Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	45,210	3	-	-	-	-	8,980	60.00	5,388	55,242	-	Note2- 2.B
Gallant Biotech (Suzhou) Co., Ltd.	Manufacturing, research, development and selling of medical equipment	45,202	3	-	-	-	-	(23,153)	29.14	(5,312)	8,044	-	Note2- 2.B

Table 6-1

<u>Investee Company</u>	<u>Accumulated Investment in Mainland China as of September 30, 2019</u>	<u>Investment Amounts Authorized by Investment Commission, MOEA</u>	<u>Upper Limit on Investment</u>
Gallant Precision Machining Co., Ltd.	\$ 870,796	\$ 1,037,916	\$ 1,398,518
Gallant Micro Machining Co., Ltd.	\$ 285,120	\$ 285,120	\$ 539,578

Note1: There are three methods of investment as follows

- (1) Directly invest in Mainland China.
- (2) Indirectly invest in Mainland China.
- (3) Others.

Note2: Share of Profits/Losses recognized for the year ended December, 2015:

- (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.