

Stock Code : 5443



Gallant Precision Machining Co., Ltd.

Annual Report 2019

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<http://mops.twse.com.tw>

Annual Report website of GPM : <http://www.gpmcorp.com.tw>

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Contact Information

I. Company Spokesman :

	Spokesman	Deputy Spokesman
Name	Jenny Li	Chia-Ju Tseng
Title	Executive Assistant	Deputy Manager
Tel	886-3-563-9999	886-3-563-9999
E-mail	jennylee@gpmcorp.com.tw	jessica@gpmcorp.com.tw

II. Headquarters and Facilities :

	Address	Tel
Headquarters	No.5-1, Innovation 1st Rd., Science Based Industrial Park, Hsinchu, 30076, Taiwan.	886-3-563-9999
Facilities	No.28, Keya W.Rd., Central Taiwan Science Park, TaiChung city, Taiwan	886-4-2565-8866

III. Stock Transfer Service :

Company : President Securities Corporation, Transfer Agency Department
Address : B1-1.,No.8, Dongxing Rd., Taipei City, Taiwan.
Website : www.pscnet.com.tw
Tel : 886-2-2746-3797

IV. Independent Auditor: :

Company : LI, TIEN YI 、Kwok-ah Tsang
Auditors : PricewaterhouseCoopers Taiwan
Address : 5F, No.2 Industry East 3 Rd. Hsinchu Science Park, 30075, Taiwan
Website : www.pwc.com.tw
Tel : 886-3-5780205

V. Foreign Securities Trade & Exchange : NA ◦

VI. Website : www.gpmcorp.com.tw ◦

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I. Letter to Shareholders

Dear Shareholders: :

First of all, we would like to thank you for your continuous and unwavering support to Gallant Precision Machining Co., Ltd. ("GPM" or "the Company"). Hereafter is the operating result of 2019.

In 2018, GPM standalone revenue totaled NT\$3,335,058 thousand, a decrease of 12.87% compared with that in 2018. Consolidated revenue was NT\$4,236,015 thousand, a decrease of 13.07% from that in 2018. In terms of profitability, GPM standalone net income was NT\$249,158 thousand, a decrease of 32.68% compared with a year earlier. Gross profit ratio was a increase of 1.84% from the prior year. EPS was NT\$1.51.

1.The overview of receipt/expense and profitability of Gallant Precision Machining Group ("GPM Group"):

Financial analysis data		2019
Debt to asset ratio (%)	(%)	56.29
Long-term funds to fixed assets ratio (%)	(%)	556.19
Return on total assets	(%)	4.91
Return on shareholders' equity	(%)	10.2
Percentage of paid-in capital (%)	Operating profit	21.74
	Pre-tax net profit	21.81
Net profit margin	(%)	6.84
Earnings Per Share	(NT\$)	1.51

2.Products that have been developed by the Company in 2019

R&D Items (Processing Technology)	Names of machine developed
	● Picosecond Imaging Circuit Analysis , PICA I
	● G10.5 Wet Etching
	● Wafer 2D AOI
	● Parts/Material AGV
	● IC Substrate Grinding MC
	● Strip Disc Grinding MC
	● Edge Grinding Machine
	● IDMS I
	● Flip Chip Bonder
	● DAF Die Bonder
	● 3D IC/Fan out bonder
	● High Speed AOI System
	● Fully Auto Panel Molding System
	● FC Bump Coin Lamination
	● Semi Auto IPM Motor Molding Machine
● IPM Motor Rotor Epoxy Mold Chase	
● Reflow Auto Load/Unload Machine	

Overview of 2019

1. Annual Operating Policy

1.1 Business Aspect

- Diversify, deepen and expand display industry .
 - Extend, promote and branding intelligent automation industry .
 - Refine, combine, focus and innovate semiconductor industry.
- A. Based on the refining technology of the existing display manufacturing process, with foreign technical cooperation, focus and deeply develop the FPD ARRAY segment high value-added PROBER and wet process etching equipment.
- B. Continuously implement the diversification of existing products (such as introduction of IDMS...) and low-cost strategy to increase product competitiveness and profitability, as well as continuously deepen existing core technologies and expand new FPD market (such as μ -LED), expand the aftermarket niche.
- C. Profit first. Master the current key forward-looking technology to build a high quality production system, using the Company's electromechanical and software integration technology and QDTCSS as the foundation, the intelligent production management system as the center for the smart factory, unmanned trucks (AGVs) and automation process equipment. Continue the development of intelligent automation, centralize resources to provide strategic partners and key industry representative customers with intelligent automation integration solution, and help achieve their intelligent manufacturing targets.
- D. For AGVs, expand the development of potential customers and promote to other customers' demands. For IDMS, strengthen the promotion of IoT system products to various industries, with the introduction of key industrial equipment, strengthen the promotion of 3DOnline system products to key industries with introduction value. AOI+AI service solutions will be provided to enhance the brand image for customers.
- E. Through technology introduction/cooperation to fulfill the needs of our partners and customers, we are committed to the development of high-value-added advanced semiconductor front-end testing technology, and the testing and flattening of intermediate and back-end packaging process equipment. And improve the performance of existing IC boards, so as to deepen the product line and expand the customer base.
- F. Refine core technologies (AOI, AGVs...), combine resources, get close to the market, provide customer process solutions, focus on deep development quality, innovate to enhance competitiveness and grasp the market trend, enhance customer competitiveness and differentiation.
- G. Innovate sustainable operation, continuously expand cooperation with world-class companies in different industries, to become a long-term automation equipment partner, accelerate the research and development of new products, to help customers launch new products in time and into new markets, to build a long-term stable and profitable system.

1.2. R&D Aspect

Strengthen the development of the Company's eight core technologies: (1) grinding

technology; (2) wet process technology; (3) AOI technology; (4) lamination and peeling; (5) precision pick and place technology; (6) precision mold technology; (7) laser technology; (8) intelligent automation technology.

Integrate products in different fields and create value-added, expand the core technology in application in displays, semiconductors, IC panel and intelligent automation industries.

The Company plans to develop following products in 2021:

R&D Item (Processing Technology)	Names of machine to be developed
	● Picosecond Imaging Circuit Analysis , PICA II
	● Emission Microscopy , EMMI
	● 12" Wafer 2D/3D Defect Inspection & Metrology
	● AI Defect Inspection System
	● High precision Grinding Machine for Fan-out packaging.
	● 3D on-line Processing system.
	● AGV with visual Simultaneous Localization and Mapping.
	● Automatic loading and unloading AGV for 300mm wafer cassette.
	● Warehouse Automated Guided Vehicle positioning System.
	● Dual Spindle Strip Grinding
	● IDMS II
	● Mobile Robot
	● Micro LED Die Transfer machine
	● High speed 6S Inspection Chip Sorter
	● Fiber-optic Communication Bonder
	● New IC marking Machine
	● IC Laser Cut Machine
	● Fully Auto IPM Motor Rotor Epoxy Molding System
	● FPC Micro Prober SYSTEM
● FC LID Attach System	
● RFID die bonder	

2. The Company's forecast on sales volume and its basis for 2020:

	unit: set
Main products	2020 budget
Display Process Equipment	159
Semiconductor Process Equipment	265
Intelligent automation equipment	672
Other equipments	45

Note: The forecast is based on the customers' forecast and taking into account the market conditions.

3. Important production and marketing policies

- 3.1 Integrate cross-strait operation system, talents and resources, strengthen the integration of customer management, sales and efficiency, give full play to the comprehensive effect, and continue to promote the mainland market competitiveness.
- 3.2 Conduct strategic alliance with industry-university-research units and end customers, continuously improve system integration capability and develop new products and technologies in new fields such as display, semiconductor and intelligent automation, to improve marketing efficiency and achieve differentiated niche.
- 3.3 Strengthen product cost control mechanism, together with design improvement, efficiency improvement and supply chain management, increase orders of high-gross margin products, and ensure reasonable profit of products.
- 3.4 Continuously promote the intelligence, modularization and standardization of major products, simplify the manufacturing process, improve product function and reliability, and reduce costs.
- 3.5 To meet the customer demand for fast delivery, effectively control quantity and amount of raw materials and inventory, reduce inventory turnover days and reduce loss on inventory falling price.
- 3.6 Accelerate installation and acceptance efficiency, improve after-sales service quality to ensure customer satisfaction, establish a win-win service system with customers and continuously strengthen accounts receivable and cash flow management.

Strategies for Future Development

- Adopt innovation transformation, market extension, sustainable development as the guiding principle of development strategy.
- Business Aspect
 - Deepen promotion of development of the display industry, semiconductor industry and intelligent automation industry.
- Product Aspect
 - Deeply develop core technologies (equipment & processes).
 - Extend core technology for cross-industrial product integration application development.
- Internationalization strategy of diverse talents cultivation
- Based on QDTCS and smart production management system to construct great production system and powerful supply system.
- Build a win-win sale system that meets expectation of the customers. Expand, integrate, and expand After market service.
- International strategy that cultivates talents
- Continue to build strategic alliance, cooperate in technology transfer, and integrate cross-area creative operation.
- Construct long-term stable and profitable operation system.

Impact from Competition, Legislation and Overall Business Environment

1. External Competitive Environment and Overall Business Environment:

The unprecedented changes in industry cycle, the various trend on market and product applications, the fierce external competition and the mainland government's policies on equipment localization have made the display industry, once GPM's core business, under serious threat. Constantly testing of the

strain capacity of GPM's management team, Gallant Precision Machining Co., Ltd (GPM) will continue to strengthen its own product technology by introducing overseas advanced technology, improving the quality and level of product to avoid low price competition. Additionally, the Company will expand to semiconductor and smart production industry and new markets outside the mainland China. The Company's business environment, and has established the diversified business strategy and the development goal of the industry.

2. Regulatory Environment:

Integrity is deep rooted in the Company's core culture. As a result, the Company has been complying with legal norms, honest, and self-disciplined in its business. In addition to collecting information concerning external regulatory changes at any time for the management's reference, the Company is establishing, reviewing, updating or adjusting its internal management and operational rules and regulations in order to actively respond to various changes in the regulatory environment.

3. Overall Business Environment:

At present, the international economy is facing many uncertainties. The trade war between China and the United States is the most important topic that deserves constant attention. As a result of trade war, some enterprises from the Chinese mainland emigrated or moved back to Taiwan or chose to set up factories in Vietnam, Thailand and other southeast Asian countries to spread risks. However, the shortage of technicians and the rising cost in southeast Asian countries have become an irreversible trend in the world. The need for automation equipment is urgent as well. In addition, AI, IoT, Big Data, etc., result into more comprehensive application of automation. GPM is equipped with the technology of automation equipment application process solutions across multiple technology industries. In recent years, GPM has cooperated fully with world-renowned manufacturers in key industries and achieved considerable results in integrating intelligent automation solutions.

Looking forward to the future, with the excellent management team, the professional operation performance and the collective effort of all the staff, GPM is sure to achieve the goal of the Company and achieve the best operation results.

Last but not least, we wish our shareholders health and success!



Nick Yeh
Chairman



Jason Chen
President

II. Company Profile

Date of Establishment : December 22, 1978

Milestones

1978	<ul style="list-style-type: none">● GPM was founded with a capital of NT\$2 million. Engaged in the design, manufacture and sales of semiconductor precision molds and components. Sales began under the proprietary brand name of GPM.
1980	<ul style="list-style-type: none">● Became the first manufacturer in the country to complete the production of IC molding.
1982	<ul style="list-style-type: none">● First company in Taiwan to manufacture a semi-automatic dejunk/trim system.● Kingroup Systems was founded, engaging in robot manufacturing and automation equipment. The company was merged into GPM in 2006.
1983	<ul style="list-style-type: none">● Fully automatic dejunk/trim system was adopted by AT&T and BNS, officially launching the company onto the international market.
1989	<ul style="list-style-type: none">● Reinvested in Malaysia's FORMOSA Engineering and withdrew our investment in 1995.
1993	<ul style="list-style-type: none">● First in the country to launch smart IC molding and laser markers.
1995	<ul style="list-style-type: none">● IPO
1996	<ul style="list-style-type: none">● Launched the first semi-automatic IC molding machine
1997	<ul style="list-style-type: none">● Gallant Precision Industries (Suzhou) CO., Ltd.
1998	<ul style="list-style-type: none">● Attained OTC status Launched the first fully automated IC molding machine in Taiwan.● Established Walton Advanced Engineering, Inc. (joint venture with TOSHIBA), officially engaging in IC packaging equipment manufacturing. The company was merged into GPM in 2002.● Received MOEA's "6th New Innovation Accomplishment Awards".
1999	<ul style="list-style-type: none">● Passed ISO-9001 certification.● Walton Advanced Engineering, Inc. was established in Hsinchu Science Park.
2000	<ul style="list-style-type: none">● Received MOEASMEA's "Taiwan SMEs Innovation Award".
2001	<ul style="list-style-type: none">● Passed ISO 2000 certification.● Received MOEA's "9th New Innovation Accomplishment Awards"● Established Apex-i Optoelectronics.
2002	<ul style="list-style-type: none">● Acquired Walton Advanced Engineering, Inc.● Received MOEA's "The 9th Innovation Research Awards".
2003	<ul style="list-style-type: none">● Established the FPD BU, transferring technology from TOSHIBA ROBOT● Established Gallant Micro. Machining (Suzhou) Co., Ltd., involving in the production of precision IC molds and IC packaging equipment.
2004	<ul style="list-style-type: none">● Received 13th "National Award of Outstanding SMEs" .● Received science park's "Outstanding Manufacturer and Innovative Product Awards" .● Entered Commonwealth Magazine's 2006 Top 1,000 enterprises in the manufacturing industry for the first time, ranking 822nd.● Apex-i Optoelectronics was renamed as Apex-i International Co., Ltd.
2005	<ul style="list-style-type: none">● Ranked 539th in Commonwealth Magazine's 2006 Top 1,000 enterprises in the manufacturing industry.● Received "Excellent Enterprise Innovation Award" from MOEA for industry technology development.● Received Hsinchu Science Park's "Outstanding Manufacturer and Innovative Product Awards".

2006	<ul style="list-style-type: none"> ● Acquired Kingroup Systems. ● Received Hsinchu Science Park's "2006 Outstanding Manufacturer and Innovative Product Awards".
2007	<ul style="list-style-type: none"> ● Headquarters moved to Hsinchu Science Park ● Ranked 330th in Commonwealth Magazine's 2006 Top 1,000 enterprises in the manufacturing industry. Ranked 12th in the Top 100 for best operating performance. Ranked 25th among the 50 fastest growing companies in the manufacturing industry. ● GMP won first place for equipment localization from MOEA when the flat panel display industry production exceeded the NT\$1 trillion mark. ● Won first place for III-V compound semiconductor research alliance from DOIT, MOEA in 2007. ● Won second place for FPD research alliance from DOIT, MOEA in 2007.
2008	<ul style="list-style-type: none"> ● Plant in CTSP completed. ● Received CTSP's Innovation Awards.
2009	<ul style="list-style-type: none"> ● Received "Excellent Enterprise Innovation Award" from MOEA for industry technology development. ● Outstanding annual integrated project "Large flat panel display equipment development program".
2010	<ul style="list-style-type: none"> ● Received CTSP's Innovation Awards ● Founded Gallant Precision Machining Co., Ltd.
2011	<ul style="list-style-type: none"> ● Divided semiconductor-related operations and long-term investment into Gallant Precision Machining Co., Ltd.
2012	<ul style="list-style-type: none"> ● Registered for MOEAIDB's technical service energy. In total, four items were registered: 1. AU1 product design; 2. AU2 automated materials transportation; 3. AU3 automated production; 4. AU4 automated system integration and planning technical service. ● Received an outstanding manufacturer award from the Central Taiwan Science Park (CTSP) for "High-Tech Equipment and Advanced Technology Development Project".
2013	<ul style="list-style-type: none"> ● Received an outstanding manufacturer award from the Central Taiwan Science Park (CTSP) for "High-Tech Equipment and Advanced Technology Development Project".
2014	<ul style="list-style-type: none"> ● MOEA's 2nd Taiwan Mittelstand Award and key assisted manufacturer. ● Outstanding manufacturer for CTSP's 2014 "High-Tech Equipment Prospective Technology Development Project". ● Rank 823 of 2013 Top 2000 Survey: Manufacturing-CommonWealth Magazine.. ● Awarded healthy workplace certification: Health promotion label.
2015	<ul style="list-style-type: none"> ● Received TDUA "Gold Panel Awards 2015-Display Component Product Technology Award". ● Signed technology transfer contract with MICRONICS JAPAN CO., LTD. ● Rank 841 of 2014 Top 2000 Survey: Manufacturing-CommonWealth Magazine. ● Top 6%~20% company in 2015 TWSE Corporate Governance Evaluation.
2016	<ul style="list-style-type: none"> ● Signed technology cooperation contract with Sumitomo Precision Products CO., LTD. ● Signed technology transfer and cooperative development contract with International Business Machines Corporation. ● Rank 623 of 2015 Top 2000 Survey: Manufacturing-CommonWealth Magazine. ● Top 6%~20% company in 2016 TWSE Corporate Governance Evaluation. ● Gold Panel Awards 2016 - Smart Manufacturing and Equipment" – TDUA.

-
- Innovative Product Awards" - Central Taiwan Science Park Bureau.
 - Development of Advanced Technologies for High-Tech Equipment Award -Talent Excellence" - Central Taiwan Science Park Bureau.
 - Development of Advanced Technologies for High-Tech Equipment Award - Industry Technology" - Central Taiwan Science Park Bureau.
 - 2016 Workplace Equality Model Company - Hsinchu Science Park Bureau.
 - 2016 Work-Life Balance Awards - Ministry of Labor.
 - 2016 "Excellent Enterprise, Happy Labors" 2-Star Awards - Taichung City Government.

2017

- Investment to Suzhou Gallant Precision Intelligence Technology Co., Ltd. through Gallant Precision Industries (Suzhou) Co., Ltd.
- Subsidiary Gallant Micro. Machining Co., Ltd. registering on TPEX Emerging Stock Board.
- 1st Industry 4.0 Excellence Awards, Academia-Industry Consortium, Central Taiwan Science Park
- Passed OHSAS18001: 2007&TOSHMS qualification
- 2017 "Excellent Enterprise, Happy Workplace" 2-Star Awards- Taichung City Government
- Taichung Factory received excellent award from "2017 Taichung City Government Workplace Dynamic Innovation Golden Point Award"
- Hsinchu Factory received Top 10 from "2017 Ministry of Health and Welfare Workplace Dynamic Innovation Golden Point Award"
- Rank 619 of 2016 Top 2000 Survey: Manufacturing-CommonWealth Magazine.
- Top 6%~20% company in 2016 TWSE Corporate Governance Evaluation.

2018

- Subsidiary Gallant Micro. Machining Co., Ltd. was listed on TPEX.
- Excellence Award in Taichung City Industrial Park Landscaping Evaluation
- Sports Administration iSports Certificate
- Vitality Award in Health Promotion Administration Workplace Health Award
- Bronze Award in Business Talent Quality-management System (TTQS) by Workforce Development Agency, Ministry of Labor
- Rank 532 of 2017 Top 2000 Survey:Manufacturing-CommonWealth Magazine.
- Top 6%~20% company in 2016 TWSE Corporate Governance Evaluation.

2019

- 6th National Industrial Innovation Award, M.O.E.A..
- Rank 542 of 2017 Top 2000 Survey:Manufacturing-CommonWealth Magazine.
- GPM Ranked Top 11 Little Giants of CommonWealth Magazine 2019 Corporate Citizen Awards.
- 5th Taiwan Mittelstand Award (MOEA)
- TDUA Gold Panel Awards 2019
- One of the superior manufacturers of Projects for Industry Contribution Award, Central Taiwan Science Park.
- One of the superior manufacturers of Projects for Prospective Innovation Award, Central Taiwan Science Park.

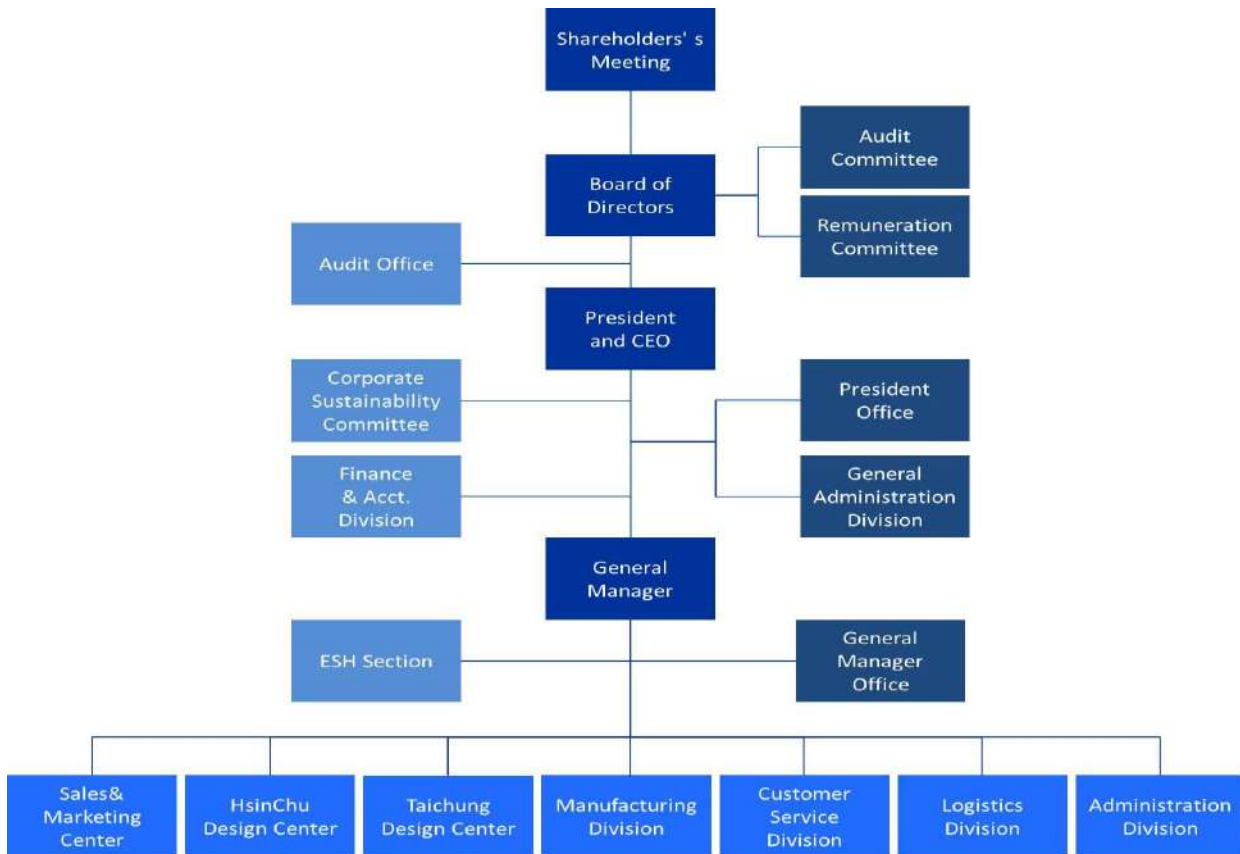
Jan. 1 to March
31, 2020

III. Corporate Governance

1. Organization

1.1 Organization Chart

As of March 31, 2020



1.2 Major Corporate Functions

Department	Functions
President and CEO	<ul style="list-style-type: none"> • Execute short-term to long-term project development
Audit Office	<ul style="list-style-type: none"> • Audit the implementation of management system
Administration Division	<ul style="list-style-type: none"> • Manage remuneration and HR-related work
Logistics Division	<ul style="list-style-type: none"> • Design computer program, maintain the operation of computer, engage in computerized management
Finance & Acct. Division	<ul style="list-style-type: none"> • Manage capital, budget, investment, accounting treatment and cost calculation.
ESH Section	<ul style="list-style-type: none"> • Extinguish working environment hazardous factors and lower risk in order to keep employees operational safety • Execute pollution prevention in lowering environmental burden
General Manager Office	<ul style="list-style-type: none"> • Execute short-term to long-term development policy and corporate business management • Management comprehensively the Company's operation and management • Plan, monitor and analyze internal risk management • Technology development project application and management

Department	Functions
Sales&Marketing Center	<ul style="list-style-type: none"> • Plan, develop, and manage all the product sales plan • Research on market conditions and assist in new product development evaluation • Explore domestic and international market and maintain existing customers
HsinChu Design Center 、 Taichung Design Center	<ul style="list-style-type: none"> • Provide various equipment and design of machining, software development and programming in catering client's specification
Project Management Office	<ul style="list-style-type: none"> • Processing development and planning for whole factory and production line, contact lens and solar energy equipments • Project Progress Management • Science project application and management
Manufacturing & Logistics Division	<ul style="list-style-type: none"> • Integrating and executing of cross-factory material purchase, outsourcing, purchase examination, logistic and storage and machine assembling • Equipment assembly
Customer Service Division	<ul style="list-style-type: none"> • After-sales service of improvement on equipment that did not meet the specification • Machine relocation/remodeling/execution • Overdue receivables management
Administration Division	<ul style="list-style-type: none"> • Recruitment, training, employee relations, public affairs, plant affairs and general administration related affairs
Remuneration Committee	<ul style="list-style-type: none"> • Establishment and periodic examination of performance evaluation and remuneration policy, standard, system and framework of Directors and Managers of the Company • Periodic assessment and determination of the remuneration of Directors and Managers
Audit Committee	<ul style="list-style-type: none"> • Establishment or revision the assessment of the effectiveness of the internal control system and the internal control system • Establishment or revision of the following handling procedure: major financial and operational behaviors such as acquisition and disposal of assets, trading of derivatives, loaning of funds, and making of endorsements/guarantees. • Matters involved Directors' self interest • Evaluation of material asset or derivatives transactions • Evaluation of material lending funds, endorsements or guarantees • Evaluation of offering, issuance, or private placement of any equity-type securities • Evaluation of hiring or dismissal of an attesting CPA, or the compensation given thereto • Evaluation appointment or discharge of financial, accounting, or internal auditing officers; • Review of financial reports
Corporate Sustainability Committee	<ul style="list-style-type: none"> • Promotion of Corporate Social Responsibility ("CSR"), ethical management, and corporate governance affairs

2.Directors and Management Team

2.1 Information Regarding Board Members

As of March 31, 2020.;U:nit:Shares

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Chairman & CEO Nick Yeh	R.O.C.	2017/06/16	Male	3	2002/05/14	1,756,793	1.06%	1,324,556	0.8%	500,000	0.3%	0	0%	Master of Business, City University of Seattle, U.S.A. Vice President, Kunghua Technology Co. President, King Ultrasonic Co., Ltd Chairman & CEO, Walton Advanced Engineering, Inc. Chairman, Syntran Co., Ltd. Chairman, Pute Technology Co. Chairman, Gallant Precision Machining Co., Ltd.	Director, Apex-I International Co., Ltd. Chairman, Chun Zhun Enterprise Corporation Director, Gallant Precision Industries (Suzhou) Co., Ltd. Director, Gallant Precision Machining (Xiamen) Co., Ltd. Chairman, Gallant Precision Machining (Shenzhen) Co., Ltd. Director, King Ultrasonic Co., Ltd. Director, Gallant International Trading CO., Ltd. Chairman, Sunengine Co., Ltd. Chairman, Suzhou Jianmeifu Optical Co.,Ltd. Chairman, Gallant Biotech (Suzhou) Co., Ltd Independent director, member of Remuneration Committee and member of Audit Committee, Zhong Yang Technology Co., Ltd.

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Director Jason Chen (Note2)	R.O.C.	2017/06/16	Male	3	2017/06/16	109,607	0.07%	851,418	0.52%	0	0%	0	0%	Director of Design Division, Chungwa Picture Tubes Ltd. Vice President, Gallant Precision Machining Co., Ltd. President, Gallant Precision Machining Co., Ltd.	President, Gallant Precision Machining Co., Ltd. Director, C SUN Mfg., Ltd. Director, Shinyu Light Co., LTD Chairman, Gallant Precision Industries (Suzhou) Co., Ltd. Chairman, Apex-I International Co., Ltd. Chairman, Gallant International Trading Co., Ltd. Director, Suzhou Jianmeifu Optical Co., Ltd. Chairman, Gallant-Rapid Corporation Limited Chairman, Gallant Precision Machinery (BVI) Ltd. Director, Chun Zhun Enterprise Corporation. Chairman, Gallant Precision Machining (Xiamen) Co., Ltd. Chairman, SuZhou Gallant Precision Intelligence Technology Co., Ltd
Director Hsu, Hung-Ming (Note2)	R.O.C.	2017/06/16	Male	3	2017/06/16	1,000	0.00%	1,000	0.00%	0	0%	0	0%	B.Sc. in Electronic and Computer Engineering, National Taiwan University of Science and Technology President, Gallant Micro Machining Co., Ltd. Vice President, Gallant Micro (Suzhou) Machining Co., Ltd.	President, Gallant Micro Machining CO., Ltd. Deputy President, Gallant Micro (Suzhou) Machining Co., Ltd. Chairman, UTRON TECHNOLOGIES CORP

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Director C SUN MFG. LTD. Representative: Frank Liang	R.O.C.	2017/06/16	Male	3	2014/06/20	17,177,827	10.40%	33,268,827	20.15%	0	0%	0	0%	Master of Law, School of Law, Northwestern Univ. Certificate in Business Admin., Kellogg School of Management, Northwestern Univ. Univ. of Washington MBA Special assistant to the Chairman, C SUN Mfg., Ltd. Chairman, Suzhou Top Creation Machines Co., Ltd. Chairman, Top Creation Machines Co., Ltd. Director, ViewMove Technologies, Inc.	Chairman, Gallant Micro-Machining CO., Ltd. Vice Chairman, Gallant Precision Machining Co., Ltd. Special assistant to the Chairman, C SUN Mfg., Ltd. Chairman, Suzhou Top Creation Machines Co., Ltd. Chairman, Top Creation Machines Co., Ltd. Chairman, POWER EVER ENTERPRISES LIMITED. Chairman, Huashun Technology Co. Director, ViewMove Technologies, Inc. Director, Powei Technology Co.
Independent Director Chia-Chin Tong	R.O.C.	2017/06/16	Male	3	2014/06/20	0	0%	0	0%	0	0%	0	0%	Bachelor's degree from Department of Chemistry, National Chung Hsing University. President, Hungsheng Technology Co. Chairman, Taiwan Printed Circuit Association Vice Chairman, Compeq Manufacturing Co., Ltd. Consultant, Taiwan Printed Circuit Association Supervisor, Kaolu Technology Co.	Independent director, member of Remuneration Committee and member of Audit Committee, Hing Materials Co., Ltd.
Independent Director William Hung	R.O.C.	2017/06/16	Male	3	2014/06/20	0	0%	0	0%	0	0%	0	0%	M.Sc., Immunology, Medical School, National Taiwan University Assistant Vice President, IBT Management Co. Vice President, H&Q Biomedical Corp. (Taiwan) President, Tanvex Biologics Corp. (Taiwan) CEO, PT Navi	COO, Gloria NCKU Distinguished Visiting Chair

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director Bill Chen	R.O.C.	2017/06/16	Male	3	2015/06/17	0	0%	0	0%	0	0%	0	0%	Ph.D. of Science and Technology, Keio University, Japan Deputy Director, Mechanical and Mechatronics Systems Research Laboratories, ITRI Precision Machinery Development Team. Vice Chairman of MPI Corporation Independent director, Chairman, Setco Precision Solutions	Director of Remuneration Committee, Mirle Automation Corporation Honorary Chairman, Secto Precision Solutions. Independent director, Easy Field Corporation

Remarks:

1. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at GPM.

Major shareholders of institutional shareholders

Names of institutional shareholders	Main shareholders of the institutional shareholders
C SUN Mfg., Ltd.	Chen Liang, Chin-Jung, Haihsing Investment Co. 7.92% Liang,Pi-Ju, Pinchin Investment Co. 6.83% Mao-Chung Liang 5.60% Mao-Sheng Liang 5.28% Chin-Tu Chien 2.05% Emerging market small cap stock fund of Ever Trust Bank 1.84% Shih-Chuan Wang 0.98% JIANG,CHAO-HAN 1.01% Citi Taiwan holds DFA Emerging Markets core securities account 1.01% Hsiu-Hung Fu Liang 0.90% Shen,Hsien-Ho ,Chiayuan Investment Co. 0.87%

Note 1: Data is based on March 31, 2020, the book closure date of the Company.

Major Shareholders of Institutional Shareholders

Name of corporate shareholders	Major shareholders of institutional shareholders
Haihsing Investment Co.	LIANG,PI-CHEN, Liansheng Co., Ltd. 19.53% Chun-Mei Tsou 16.67% Mao-Sheng Liang 16.67% Liang,Pi-Ju, Pinchin Investment Co. 10.10% Mao-Chung Liang 8.33% LIANG,YEH-CHIN-CHIH 8.33% CHANG LIANG,HSIU-CHIEH 7.24% FU LIANG,HSIU-HUNG 7.24% CHEN LIANG,CHIN-JUNG 2.53% LIANG,YU-WEN 1.35%
Pinchin Investment Co.	Pi-Ju Liang 33.33% LIANG,PI-YIN 33.33% LIANG,YU-WEN 33.33%
Chiayuan Investment Co.	Hsien-Ho Shen 30.85%

2.2 Professional qualifications and independence analysis of directors

As of March 31, 2020

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note1)										Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	
Name														
Nick Yeh			✓				✓	✓	✓	✓	✓	✓	✓	1
Jason Chen			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Frank Liang			✓			✓	✓		✓	✓	✓	✓	✓	0
Hsu, Hung-Ming			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Chia-chin Tong			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
William Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Bill Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note1: Directors or Supervisors with a "✓" sign meets the following criteria:

- (1). Not an employee of the Company or any of its affiliates.
- (2). Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds in accordance of Taiwan government or local government laws.
- (3). Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4). Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5). Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- (6). Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- (7). Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
- (8). Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9). Not been a person of any conditions defined in Article 30 of the Company Law.
- (10). Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.3 Management Team :

As of March 31, 2020.;Unit:Shares

Title/Name	Nationality or Registry	Date Elected	Gender	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
President Jason Chen	R.O.C.	2006/10/01	Male	851,418	0.52%	0	0%	0	0%	Master's graduate. Director of Design Division, Chungghwa Picture Tubes Ltd. Vice President of Gallant Precision Machining Co., Ltd. President, Gallant Precision Machining Co., Ltd.	Director and Chairman, APEX-I International CO., LTD. Director, Shiny U Light CO., LTD. Director and Chairman, Gallant International Trading Co.,LTD. Director and Chairman, Gallant Precision Industries (Suzhou) CO., LTD. Director and Chairman, Gallant-Rapid Corporation Limited Director and Chairman, Gallant Precision Machinery (BVI) Ltd. Director, Chun Zhun Enterprise Corporation. Chairman,, Gallant Precision Machinery (Xiamen) Co., LTD. Director and Chairman Gallant Precision Intelligence Technology Co.,LTD.			None
Deputy President Mufa Chien	R.O.C.	2013/07/01	Male	148,930	0.09%	11,000	0.01%	0	0%	Master's graduate. Senior engineer, Chungghwa Picture Tubes Ltd. Associate Vice President, Gallant Precision Machining Co., Ltd.	Director, Gallant Precision Machinery (Xiamen) Co., LTD.			None
Deputy President H.M. Lee	R.O.C.	2013/07/01	Male	168,369	0.10%	0	0%	0	0%	Master's graduate. Engineer, Chungghwa Picture Tubes Ltd. Associate Vice President, Gallant Precision Machining Co., Ltd.	President, Gallant Precision Intelligence Technology Co.,LTD.			None
Deputy President Tu-Cheng Wang	R.O.C.	2013/07/01	Male	67,055	0.02%	0	0%	0	0%	Junior college graduate. Manager, Ji Feng Automation. Manager, Kingroup Automation. Associate Vice President, Gallant Precision Machining Co., Ltd.	None			None

Title/Name	Nationality or Registry	Date Elected	Gender	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other			
				Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Associate Vice President Roger Lin	R.O.C.	2010/10/01	Male	92,263	0.04%	0	0%	0	0%	Master's graduate. Manager, Walton Advanced Engineering, Inc. Associate Vice President, Gallant Precision Machining Co., Ltd.	None	None			
Associate Vice President Chen- Shun Hsu	R.O.C.	2018/07/01	Male	22,068	0.01%	0	0%	0	0%	Master's graduate. Supervisor, Lingsen Precision Industries .Ltd. Associate Vice President, Gallant Precision Machining Co., Ltd.	Associate Vice President , Gallant Precision Industries (Suzhou) CO., Ltd.	None			
Associate Vice President Angela Huang (Note 1)	R.O.C.	2019/01/01	Female	—	—	—	—	—	—	—	—	None			
Chief Financial Officer Sandy Ning (Note 1)	R.O.C.	2008/08/22	Female	—	—	—	—	—	—	—	Supervisor , Gallant International Trading Co.,Ltd. Supervisor , Sunengine Co., Ltd.	None			
Chief Financial Officer Chia-Ju Tseng (Note 1)	R.O.C.	2019/07/31	Female	14,586	0.01%	0	0%	0	0%	Bachelor's degree. Senior Associate, Former Partners of Tiaoho & Co. Administrator, Opto Tech Corporation. Administrator, Etron Technology, Inc. Deputy Manager, Gallant Precision Machining Co., Ltd.	Supervisor , Gallant Precision Intelligence Technology Co.,Ltd. Supervisor , Gallant Biotech (Suzhou) Co., Ltd Supervisor , Gallant Precision Machinery (Xiamen) Co., Ltd.	None			

Note 1: Associate manager, Angela Huang, was transferred to senior executive assistant on November 4, 2019; head of accounting, Sandy Ning, resigned on July 22, 2019, and the new head of accounting, Chia-Ju Tseng, took office after being appointed by the Board of Directors on August 12, 2019.

2.4 Remunerations Paid to Directors

Unit: Share / NT\$ thousands

Title/Name	Remunerations Paid to Directors								Total Compensation (A+B+C+D) as a % of 2016 Net Income		Employees' Profit Sharing Bonus								(A+B+C+D+E+F+G) as % of Net Income		Other Compen sations from nonsu bsidia ry affilia tes
	Salary (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowances (D)				Salary, Bonus, etc. (E)		Severance Pay and Pensions (F)		Employee Compensation (G)						
	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM		From All Consolidated Entitie		From GPM	From All Consoli dated Entitie	
															Cash	Stock	Cash	Stock			
Chairman Nick Yeh																					
Director Jason Chen																					
Director Hsu, Hung-Ming	0	1,110	0	0	4,132	4,584	174	264	1.73	2.39	11,244	15,796	214	322	4,352	0	5,602	0	8.07	11.11	1,223
Director C SUN MFG. LTD. Representative: Frank Liang																					
Independent Director Chia-chin Tong																					
Independent Director William Hung	720	912	0	0	2,479	2,931	120	186	1.33	1.62	0	0	0	0	0	0	0	0	1.33	1.62	1,108
Independent Director Bill Chen																					
<p>1. Please specify the policies, programs, standards, and structure of the remuneration payment of the independent directors, and relate the amount of remuneration to the responsibilities, risks, time invested, and other factors:</p> <p>(1) The Company's policies, programs, standards, and structure of the performance evaluation and remuneration payment of the directors and managers are formulated and reviewed regularly by the Remuneration Committee. It will be submitted to the Board of Directors for discussion.</p> <p>(2) The remuneration to directors and independent directors is paid in accordance with the Company's Articles of Association and regulations. It positively correlates with the operating performance and is adjusted properly according to the potential risks.</p> <p>2. Other than disclosure in the above table, Directors remunerations earned by providing services (i.e. non-employee consulting services) to companies which are listed in financial reports in 2020: None.</p>																					

Remunerations Paid to Directors

Range of Remuneration	Name of Directors			
	Compensation Paid to Directors (A+B+C+D)		Total Compensation Paid to Directors (A+B+C+D+E+F+G)	
	From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities
NT\$0 ~ NT\$1,000,000	Jason Chen /Hsu, Hung-Ming/ C SUN MFG. LTD. /Frank Liang	Jason Chen / C SUN MFG. LTD.	Hsu, Hung-Ming/ C SUN MFG. LTD. /Frank Liang	C SUN MFG. LTD
NT\$1,000,001 ~ NT\$2,000,000	Nick Yeh/Chia-chin Tong/ William Hung / Bill Chen	Hsu, Hung-Ming/Frank Liang/Chia-chin Tong/ William Hung Bill Chen	Chia-chin Tong/ William Hung/ Bill Chen	Frank Liang /Chia-chin Tong/ William Hung/ Bill Chen
NT\$2,000,001 ~ NT\$3,500,000		Nick Yeh		
NT\$3,500,001 ~ NT\$5,000,000				
NT\$5,000,001 ~ NT\$10,000,000			Jason Chen	Jason Chen/ Hsu, Hung-Ming
NT\$10,000,001 ~ NT\$15,000,000			Nick Yeh	Nick Yeh
NT\$15,000,001 ~ NT\$30,000,000				
NT\$30,000,001 ~ NT\$50,000,000				
NT\$50,000,001 ~ NT\$100,000,000				
Over NT\$100,000,000				
Total	8(Contains 1 legal entities)	8(Contains 1 legal entities)	8(Contains 1 legal entities)	8(Contains 1 legal entities)

2.5 Remuneration of the President and Vice President

Unit: Share / NT\$ thousands

Title	Name	Salary (A)		Severance Pay and Pensions (B)		Salary, Bonus, etc. (C)		Employees' Profit Sharing Bonus (D)				(A+B+C+D+E+F+G) as % of Net Income		Other Compensations from nonsubsidiary affiliates
		From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities	From GPM		From All Consolidated Entities		From GPM	From All Consolidated Entities	
								Cash	Stock	Cash	Stock			
Chairman	Nick Yeh	11,377	11,997	833	833	7,526	7,526	7,269	0	7,269	0	10.84	11.09	308
President	Jason Chen													
Deputy President	Mufa Chien													
Deputy President	H.M. Lee													
Deputy President	Tu-Cheng Wang													

Note1: The policies, standards, combinations, decision procedures and performance linkage of remunerations paid to managers: The compensations are determined in accordance with managers' position, responsibility, contribution, performance and uncertainties and risks of the Company.

Note2: Pensions funded/paid according to applicable law.

Compensation Paid to President & CEO and Vice Presidents

Range of Remuneration	Name of President and Vice President	
	From GPM	From All Consolidated Entities
NT\$0 ~ NT\$1,000,000		
NT\$1,000,001 ~ NT\$2,000,000		
NT\$2,000,001 ~ NT\$3,500,000		
NT\$3,500,001 ~ NT\$5,000,000	Mufa Chen/ H.M. Lee/ Tu-Cheng Wang	Mufa Chen/ H.M. Lee/ Tu-Cheng Wang
NT\$5,000,001 ~ NT\$10,000,000	Nick Yeh/ Jason Chen	Nick Yeh/ Jason Chen
NT\$10,000,001 ~ NT\$15,000,000		
NT\$15,000,001 ~ NT\$30,000,000		
NT\$30,000,001 ~ NT\$50,000,000		
NT\$50,000,001 ~ NT\$100,000,000		
Over NT\$100,000,000		
Total	5	5

2.6 Employees' Profit Sharing Bonus Paid to Management Team :

Unit: Share / NTS thousands

Title	Name	Stock (Fair Market Value)	Cash Total Employees' Profit Sharing Bonus	Cash Total Employees' Profit Sharing Bonus	Cash Total Employees' Profit Sharing Bonus
Chairman	Nick Yeh	0	9,362	9,362	3.76%
President	Jason Chen				
Deputy President	Mufa Chien				
Deputy President	H.M. Lee				
Deputy President	Tu-cheng Wang				
Associate Vice President	Roger Lin				
Associate Vice President	Chen- Shun Hsu				
Chief Financial Officer	Chia-Ju Tseng				

2.7 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

Year	Ratio of total remuneration paid to directors to net income (%)		Ratio of total remuneration paid to presidents and vice presidents to net income (%)	
	From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities
2018	2.88%	3.28%	8.69%	8.96%
2019	3.06%	4.01%	10.84%	11.09%

Note 1: The above remuneration to directors and supervisors includes salary, remunerations and allowances (excluding compensations earned as employee of GPM or of GPM Affiliates); The remuneration to president and vice president includes salary, bonus, pension, and employee compensation.

1. The Remuneration Committee sets up and reviews the performance evaluation and remuneration policy, standard, system and framework of Directors and Officers of the Company. Remuneration Committee will make proposal for Board Meeting discussion.
2. "Board of Directors performance evaluation, compensation and remuneration" is a guidance for the Company to review the performance of board members and for the Remuneration Committee to evaluate individual director's compensation. Among the indicators, law and regulation compliance accounts for 60% and the level of participation to the Company's operation accounts for 40%. The reasonableness of performance review and remuneration shall be review by Remuneration Committee and Board of Directors. The remuneration system shall be changed, subject to actual business condition and law, to strike a balance between corporate sustainability and risk control.

3. Corporate Governance Report :

3.1 Operation of the Board

3.1.1 Board of Directors' Meeting Status :

The Company's shareholders elected the 14th Board of Directors in Annual General Meeting on June 16, 2017, effective immediately. (From June 16, 2017 to June 15, 2020)

The 14th Board of Directors held 8 sessions in 2020. The attendance of the Directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Nick Yeh	8	0	100%	
Director	Jason Chen	7	1	88%	
Director	Hsu, Hung-Ming	8	0	100%	
Director	C SUN MFG. LTD. Representative: Frank Liang	6	2	75%	
Independent Director	Chia-chin Tong	6	2	75%	
Independent Director	William Hung	7	1	88%	
Independent Director	Bill Chen	7	1	88%	

3.1.2 Other Required Notes for the Board Meetings:

(1) Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings:

A. The Company has set up audit committee, therefore, Article 14-3 in Securities and Exchange Act is not applicable. Regarding Article 14-5 in Securities and Exchange Act, please refer to "Audit Committee Meeting Status" on page 25 of this Annual report.

B. Besides items listed in Article 14-3 in Securities and Exchange Act, board resolutions that independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings: None.

(2) For execution status regarding matters bearing on the personal interests and recusal of directors due to conflict of interests, the name of the director, proposal, the reason for recusal and board resolution shall be stated:

Date	Name of Director	Agenda	Reason for recusal	Voting results	Resolution
2019.06.25	Nick Yeh	Proposal for employee remuneration paid to directors and senior executives	Has conflict of interest with the director and concurrently act as the managerial officer of GPM	Did not vote	Other attending directors agreed accordingly
2019.06.25	Jason Chen	Proposal for employee remuneration paid to directors and senior executives	Has conflict of interest with the director and concurrently act as the managerial officer of GPM	Did not vote	Other attending directors agreed accordingly
2019.06.25	Frank Liang	Proposal for employee remuneration paid to directors and senior executives	Has conflict of interest with the director	Did not vote	Other attending directors agreed accordingly
2019.06.25	Hsu, Hung-Ming	Proposal for employee remuneration paid to directors and senior executives	Has conflict of interest with the director	Did not vote	Other attending directors agreed accordingly

2019.06.25	William Hung	Proposal for employee remuneration paid to directors and senior executives	Has conflict of interest with the director	Did not vote	Other attending directors agreed accordingly
2019.06.25	Bill Chen	Proposal for employee remuneration paid to directors and senior executives	Has conflict of interest with the director	Did not vote	Other attending directors agreed accordingly
2019.12.19	Nick Yeh	Proposal of a raise to officers	Concurrently act as the managerial officer of GPM	Did not vote	Other attending directors agreed accordingly

(2) The TWSE/TPEX listed companies shall disclose the cycle, period, scope, and methods of the self- (or peer-) evaluation of the Board of Directors. The information about the evaluation of the Company is provided in Table

Interval	Period	Evaluation	Method	Content
Once a year	January 2019 - December 2019	Performance evaluation of the Board of Directors and individual directors	Internal self-evaluation of the Board of Directors, self-evaluation of the members	Items of performance evaluation of the Board of Directors: the understanding of the goals and tasks of the Company, the awareness of the responsibilities of directors, the dedication to the operations, the internal relationship management, communication, and operation of the Board of Directors, the expertise and continuous learning of directors, the internal control, the financial indicators and non-financial indicators, etc.. Items of performance evaluation of individual directors: the compliance with relevant laws and regulations, the grasp of the goals and tasks of the Company, the awareness of the responsibilities of directors, the dedication to the operations, the internal relationship management, communication, and operation of the Board of Directors, the expertise and continuous learning of directors, the internal control, etc..

- (3) For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, Measures taken to strengthen the functions of the Board (such as setting up Audit Committee, improve information transparency) and the results:
- A. The Company is endeavoring to improve the transparency of information. GPM discloses real-time information MOPS website to maintain shareholder equity.
 - B. The Company set up Remuneration Committee on December 22, 2011. Remuneration Committee is in charge of assisting Board Meeting in reviewing the performance evaluation and remuneration policy, standard, system and framework for board of directors and officers.
 - C. Three of the Seven Directors are Independent Directors. The Independent Directors have expertise in different areas, in accordance with the policy of diversification.
 - D. The Company voluntarily set up Audit Committee. The Audit Committee's primary duty is to supervisor the fair presentation of financial statement, the hiring, dismissal, independence and performance review of the independent auditor, effectiveness of internal control, compliance of law and regulations, and risk control of existing or potential risk factors.
 - E. The Company set up Corporate Sustainability Committee in 2016 August. Corporate Sustainability Committee is in charge of promoting CSR, ethical management and corporate governance affairs and reports to Board of Directors periodically.

Note 1: The Board of Directors convened Ninth meetings in 2019.

Note 2: The directors' attendance status for 2019

V: Attendance in Person

◎ : By Proxy

2019	The first meeting	The second meeting	The third meeting	The fourth meeting	The fifth meeting	The sixth meeting	The seventh meeting	The eighth meeting
Chia-chin Tung	V	V	V	◎	◎	V	V	V
William Hung	V	V	V	V	V	V	V	◎
Bill Chen	V	V	◎	V	V	V	V	V

3.2 Operation of Audit Committee

3.2.1 Audit Committee Meeting

The Audit Committee held 7 sessions in 2019. The attendance of the Independent Directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Independent Director	William Hung	6	1	88%	
Independent Director	Chia-chin Tong	6	1	88%	
Independent Director	Bill Chen	6	1	88%	

3.2.2 Other Required Notes for Audit Committee Meeting

- Any action regulated by Securities and Exchange Act 14-5, or any resolution not approved by the Audit Committee but approved by two thirds or more of all directors instead:
 - Any action regulated by Securities and Exchange Act 14-5: Audit Committee's opinion or resolution on material items, please see Attachment 1.
 - There was no other resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2019.
- Any recusal of Independent Directors due to conflicts of interests: None
- Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors (which should include the material items, channels, and results of the audits on the corporate finance and/or operations, etc.):
 - The Company convenes Audit Committee regularly and invites external auditors, chief internal auditor and relevant person in charge if necessary.
 - According to annual internal audit plan, the internal auditor officer reports to Audit Committee periodically.
 - The member of Audit Committee make periodic communications regarding quarterly review or audit of financial statements and other discussion required by laws and review the selection and independence of independent auditor.
 - For the communication history between audit committee, external auditor, and internal audit supervisor, please visit the Company's website.

Attachment 1: Any action regulated by Securities and Exchange Act 14-5: Audit Committee's opinion or resolution on material items

The date of Audit Committee meeting	Proposals and Follow-up Actions	Any resolution not approved by the Audit Committee but approved by two thirds or more of all directors instead
13 th Meeting of the 2 nd Audit Committee	1 Approval of the amendment to the "Procedures for Acquisition or Disposal of Assets". Resolution: 1. Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: 1. After being proposed in the Board meeting for discussion, the resolution was rejected by all attending directors.	None
14 th Meeting of the 2 nd Audit Committee	1. Approval of 2018 examination on effectiveness of internal control system and Statement of Internal Control System. 2. Approval of the amendment to "Procedures for Lending Funds to Other Parties. " 3. Approval of the amendment to " Procedures for Endorsements & Guarantees." 4. Approval of the distribution of directors' remuneration of 2018. 5. Approval of the 2018 Business Report and Financial statements. 6. Approval of the proposal for the distribution of 2018 earnings. Resolution: Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.	None
15 th Meeting of the 2 nd Audit Committee	1. Approval of the "Operating Procedures for Handling Requests Made by Directors". 2. Approval of the proposal for the distribution of 2018 earnings. Resolution: Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.	None
16 th Meeting of the 2 nd Audit Committee	1. The Resolution for the Appointment of the Accounting and Finance Officer has been Approved. Resolution: Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.	None
17 th Meeting of the 2 nd Audit Committee	1. 2019 Q2 consolidated financial statements. 2. Approval of the amendment to "Audit Committee Charter" 3. Approval to the Company's 2019 mid-term budget amendment. Resolution: Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.	None
18 th Meeting of the 2 nd Audit Committee	1. Approval of the liquidation of the Suzhou Jianmeifu Optical Co.,Ltd. 2. Approval of the liquidation of the Gallant International Trading Co.,Ltd. Resolution: Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.	None
19 th Meeting of the 2 nd Audit Committee	1. Approval of 2020 internal audit plan. 2. Approval of the change of external auditor and evaluation of its independence and adequacy 3. Approval of the evaluation of current CPAs' independence and competence 4. Approval of 2020 annual budget. 5. Approval of the liquidation of the Gallant Precision Machinery (Xiamen) Co., Ltd. 6. Approval of the endorsement of the guarantee through the Company to its subsidiaries. Resolution: Adopted by all attending members of the Audit Committee. Action taken by GPM in response to the Audit Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.	None

3.3 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Evaluation Item	Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"
	Yes	No	Brief Description	
Does the Company establish and disclose the corporate governance best practice in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"?	√		http://www.gpmcorp.com.tw/zh-tw/invesinv/index/64 The Company have established the "Corporate Governance Best Practice" on June 17, 2015, and disclosed it on the Company's website: http://www.gpmcorp.com.tw/zh-tw/invesinv/index/64	None
Shareholding Structure and Shareholders' equity		√	The Company has established the "Corporate Governance Best Practice" and a spokesperson system in accordance with the regulations. The affairs are assigned to the stock affair specialists and agencies and the contact person is disclosed on the Company's website.	None
Does the Company retain a list of the main shareholders who possess the controlling power, and the persons who have the ultimate control over the said shareholders?	√		The company announces the shareholdings of the insiders every month in accordance with the regulations and has the changes in hand to maintain a list of the main shareholders who possess the controlling power, and the persons who have the ultimate control.	None
For the affiliates, does the Company establish and implement a risk control and firewall mechanism?	√		For the affiliates, the Company has established the "Procedures for Related Party Transactions", "Regulations Governing the Management and Operation of Subsidiaries", etc. to set up a risk control and firewall mechanism. The implementation of the above-mentioned regulations is audited by the audit unit once a year in accordance with the audit plan.	None
Does the Company establish an internal regulation to forbid the insider to use undisclosed information on the market in marketable securities exchange?	√		The Company has set up the "Procedures for Processing the Internal Major Information and Preventing Insider Trading" to prohibit the insiders from using unpublished information on the market in marketable securities exchange. It is available on the Company's internal website and website. The promotion course is provided once a year as needed.	None

Evaluation Item		Implementation Status		Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”	
		Yes	No		Brief Description
The composition and responsibilities of the Board of Directors	Does the Board of Directors establish and implement the guidelines on the diversity of the members?	√		<p>The Company has established the "Corporate Governance Best Practice" specifying the composition of the Board of Directors shall be diversified. Currently, all members of the Board of Directors have the ability to make operational judgment and decisions, engage in management and supervision, conduct accounting and financial analysis, and have insight into the global market with sufficient industry knowledge. The members differ in the industrial background and expertise, for example, the independent director, TONG, JIA-QING, is the former chairman of the Printed Circuit Association; HONG, WEI-REN, has a master's degree in immunology, is the general manager of Tanvex BioPharma, Inc.; CHEN, ZHENG is the deputy director of the industrial research institute, ITRI. The diversity of the members is not just a principle, but also a reality. Please refer to pages 12 to 15 of the annual report and the company's website: http://www.gpmcorp.com.tw/zh-tw/investor/index/11 for the educational background and experience of the directors.</p> <p>The Company's annual shareholders' general meeting of year 2020 has been held to elect new directors and independent directors. The independent directors, Mr. TONG, JIA-QING, Mr. LUO, WEI, and Ms. CHEN, YI-MEI are nominated by the Board of Directors on March 24, 2020 to stick to the concept of diversifying of the board members.</p>	None
	In addition to the Remuneration Committee and Audit committee established in accordance with the laws, does the Company voluntarily set up other types of functional committees?	√		<p>In addition to setting up the Remuneration Committee in accordance with the laws, the Company also voluntarily establishes an Audit Committee, and both committees are composed of all independent directors. Furthermore, the Company's Enterprise Sustainability Committee consisted of the management personnel reports to the Board of Directors from time to time on the implementation status and results. For the responsibilities of the Enterprise Sustainability Committee, please refer to page 255 of this annual report.</p>	None

Evaluation Item	Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"	
	Yes	No	Brief Description		
Does the Company formulate the rules and methods for evaluating the performance of the Board of Directors, implement regular evaluation and report the results to the Board of Directors for reference and being used as the basis when evaluating the remuneration and considering the nomination of the individual directors?	√		The Company has established the "Procedures for Performance Evaluation of the Board of Directors and Remuneration Payment" on August 4, 2016, to conduct regular and annual evaluations. At the end of the year, the grasp of the targets and tasks, the awareness of the responsibilities, the dedication to the operations, the internal relationship management, communication, and operation, the expertise and continuous learning of directors, the internal control, etc. are evaluated through a self-evaluation questionnaire. The evaluation process would be completed after the end of the evaluation year and before the most recent board meeting. In order to improve the operation and performance of the Board of Directors, the scores and results would be reported to the Board of Directors and used as a reference for appraising the remuneration and nomination of the individual directors. The performance evaluation has been completed in March 2020, and the results have been reported to the board meeting held on March 24, 2020.	None	
The composition and responsibilities of the Board of Directors	Does the Company regularly assess the independence of the certifying accountant?	√		The Company has established the "Regulations Governing the Selection of Certifying Accountant", according to which the Audit Committee and Board of Directors conduct an annual evaluation of the independence and suitability of the certifying accountant; before the selection, the accountant would present a "Declaration of Independence" to help the Company's accounting unit confirm the fact that, with the Company, the accountant has no financial interests and business relationships except for the cost of certifying and financial/tax cases. This stock affair unit would be requested to check the status of shareholding, and, after the independence and suitability are confirmed by the Company's financial and accounting unit, the Audit Committee would review the submission before the Board of Directors make a decision. For the year 2019, the annual accountant reviewing and assessment form has been submitted to and approved by the Audit Committee and the Board of Directors on December 19, 2019. The essential items and standards for assessing the independence, operation, and suitability of the accountant are listed as below: ➤The accountant, his/her spouse, or minor children have no relationship in terms of investment or sharing financial benefits with the Company. ➤The accountant, his/her spouse, or minor children do not have a loan from the Company.	None

Evaluation Item		Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
		Yes	No	Brief Description	
The composition and responsibilities of the Board of Directors	Does the Company regularly assess the independence of the certifying accountant?		√	<ul style="list-style-type: none"> ➢The accountant or members of the audit service team do not advertise or purchase/sell the stocks or other securities issued by the Company as a broker. ➢ The accountant does not have any disciplinary records of punishment imposed by the CPA Discipline Committee within the past two years. ➢The accountant or members of the audit service team does not serve as the Company's directors, managers, or other officers having significant influence over the audit cases within the past two years. ➢ The accountant or members of the audit service team is not the spouse, direct relative, direct relatives by marriage, second-degree collateral relative or closer of the Company's directors, managers, or other officers having significant influence over the audit cases. ➢The accountant is not currently employed by the principal or audited entity holding a regular position with a fixed salary or serving as the director or supervisor. ➢When auditing, reviewing, re-auditing, or examining the financial statements and preparing an opinion, in addition to substantial independence, does the accountant maintain formal independence? 	None
Does the TWSE/TPEX listed company deploy qualified and sufficient management personnel and appoint directors to handle governance-related matters (including but not limited to providing directors and supervisors with the necessary information to perform their duties, assisting directors and supervisors complying with laws and regulations, handling matters related to the holding of board and shareholder meetings according to law, and preparing minutes for board and shareholder meetings, etc.)?		√		<p>The Corporate Governance Group of Enterprise Sustainability Committee of the Company, supervised by the head of the financial and accounting unit, is responsible for promoting corporate governance-related matters, handling matters related to the holding of board and shareholder meetings according to law, preparing minutes for board and shareholder meetings, carrying out business registration and modification, arranging workshop and training course for directors, etc..</p> <p>The Company has established the standard operating procedures for handling the requirements made by directors on May 8, 2019, to assist directors complying with laws and regulations and reply to the queries from directors.</p>	None
Does the Company establish communication channels with stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.), set aside a stakeholder area on the Company's website, and properly respond to the issues concerning corporate social responsibility in which the stakeholders may have a stake?		√		<p>The Company has set aside a stakeholder area on the website, and, according to the type of stakeholders (employees, customers, suppliers, investors, government and society, etc.), disclosed and listed the communication channels and the issues concerning the performance of corporate social responsibility.</p>	None

Evaluation Item		Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
		Yes	No	Brief Description	
Does the Company appoint a professional stock affair agency to handle the matters related to the holding of the shareholders meeting?		√		The Company has appointed a professional stock affair agency - the stock agency department of President Securities Corporation, to handle the matters related to the stocks and holding of the shareholders meeting.	None
Information disclosure	Does the Company set up a website to disclose information about financial business and corporate governance?	√		The company has disclosed information about financial business and corporate governance on the Company's website (http://www.gpmcorp.com.tw/zh-tw/investor/index).	None
	Does the Company adopt other approaches to disclosing information (e.g. setting up an English website, designating a person dedicated to the collection and disclosure of the Company's information, implementing a spokesperson system, publishing the proceedings of investor conferences on the Company's website, etc.)?	√		<p>1. Disclosure of financial information On the website, the Company has set aside a stakeholder area (http://www.gpmcorp.com.tw/zh-tw/investor/index) on which the Company's financial information in Chinese, English, and Japanese is regularly updated for investors' reference.</p> <p>2. Disclosure of business information The web pages of the company profile, product introduction, and core competency provide the public with up-to-date information about the products, operations, and activities in Chinese, English, and Japanese.</p> <p>3. Disclosure of corporate governance The Company has disclosed important internal regulations, such as the organization and operation of internal audits, the Articles of Association, the procedures for acquiring/disposing of assets, the operating procedure for endorsement and fund lending, and the organic rules of the Audit Committee and Remuneration Committee on the website, implemented a spokesperson system, and designated a person responsible for collection and disclosure of the information and the announcement of the disclosure in accordance with the regulations.</p>	None
	Does the Company announce and report the annual financial statements within two months of the end of the fiscal year, and announce and report the first, second, and third-quarter financial statements and the monthly operating results ahead of time and within the specified time limit.	√		The Company reports the annual/quarterly financial statements and operating results within the specified time limit. In January 2020, due to the impact of COVID-19 and with permission from the Financial Supervisory Commission through an official document (No. 1090332128), the Company postponed the announcement of revenue to January 25, 2020, and the announcement of the revenue in January to February 24, 2020.	None

Evaluation Item	Implementation Status		Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No		Brief Description
Does the Company provide other important information to facilitate the understanding of the corporate governance (including but not limited to employee rights, employee welfare, investor and supplier relations, stakeholder rights, retraining courses for directors and supervisors, the implementation of risk management and customer policies, and risk measurement standards, the purchase of liability insurance for directors and supervisors, etc.)?	√		<p><u>Employee rights and employee welfare</u> The Company lays emphasis on the rights and future development of employees, and to this end, we have set up an Employee Welfare Committee to provide various benefits and prepared an "Education and Training Quality Manual" to encourage employees to participate in various courses and skills training. We also implement a pension scheme in accordance with the laws, open the channels of communication between the management and employees, and disclose the information about benefit plan, learning and development, employee communication, and balanced life on the human resources area of the website.</p> <p><u>Investor relations</u> The dedicated unit of the Company is responsible for announcing on the web page of Market Observation Post System and disclosing finance and business-related information on the Company's website in accordance with the applicable regulations to attain information transparency.</p> <p><u>Supplier and contractor relations</u> The company has established the "Procedures for Supplier Management" and "Regulations Governing the Business with Contractor" to monitor the business behavior between suppliers and the Company, as well as to avoid the goodwill and interests of both parties being damaged. In order to protect the rights of both parties, the Company would enter into a Non-disclosure Agreement (NDA) with the supplier after the reviewing process is completed and before soing into the partnership. During the annual supply chain conference, in addition to conveying the sustainability philosophy and goals of Gallant Precision Machining Co., Ltd, we also express our admiration for outstanding suppliers in four aspects (quality improvement, cost reduction, reliable delivery, and sustainable performance). The company holds regular agreement organization meetings with the contractors to facilitate the communication and coordination between two parties, and, once a year, the outstanding contractors are praised.For the year 2019, the award ceremony of outstanding contractors in the aspect of excellent safety and health practice was suspended due to the COVID-19. The Company has entered into a "Safety, Health, and Environmental Protection Commitment" with contractors to ensure safety of the premises and sites.</p>

Evaluation Item	Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No	Brief Description	
Does the Company provide other important information to facilitate the understanding of the corporate governance (including but not limited to employee rights, employee welfare, investor and supplier relations, stakeholder rights, retraining courses for directors and supervisors, the implementation of risk management and customer policies, and risk measurement standards, the purchase of liability insurance for directors and supervisors, etc.)?	√		<p><u>Stakeholder rights</u> The Company has set up a stakeholder area on the Company's website to provide communication channels and protect the legal rights and interests of both parties, as well as a "Procedures for Contract Review" to ensure the reasonableness of the contract and the rights and interests of the Company.</p> <p><u>Retraining courses for directors</u> The directors of the Company engage in the advanced training in accordance with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies". The record of continuing education and training can be found on MOPS and in Attachment 1.</p> <p><u>The implementation of risk management policies and risk measurement standards</u> Please refer to page 255 of this annual report.</p>	None
Does the Company provide other important information to facilitate the understanding of the corporate governance (including but not limited to employee rights, employee welfare, investor and supplier relations, stakeholder rights, retraining courses for directors and supervisors, the implementation of risk management and customer policies, and risk measurement standards, the purchase of liability insurance for directors and supervisors, etc.)?	√		<p><u>Implementation of customer policies</u> In addition to always keeping in contact with customers, the Company has set up a professional customer service team and a sound after-sales service system to provide high-quality and comprehensive service and help customers enhance its competitiveness and create higher added value.</p> <p><u>Purchase of liability insurance for directors</u> The Company has purchased the liability insurance for all directors and officers to mitigate the risk of the Company and its shareholders suffering from major damage due to wrongful or negligent acts. The relevant information has been announced on the web page of the Market Observation Post System. The status of insurance has been reported to the Board of Directors on March 24, 2020</p>	none
<p>Based on the results of the most recent corporate governance evaluation conducted by the Corporate Governance Center, Taiwan Stock Exchange Co., Ltd, please describe the improvement has been made and the priority of and the measures for items to be improved.</p> <p>In the third governance evaluation, the Company was evaluated as the top 20% of the entries by the Corporate Governance Center, Taiwan Stock Exchange Co., Ltd.</p> <p>The Company sticks to the concept of sustainable operation, and, in order to develop a sustainable business, build a long-term partnership with customers and social communities, and fulfills the corporate citizenship responsibilities, an Enterprise Sustainability Committee is set up in 2016 to take the responsibilities and attain ethical corporate management. The implementation and results would be reported to the Board of Directors every year.</p> <p>For the results of corporate governance evaluation, the intended corrections and measures for items to be improved are described as below:</p> <ul style="list-style-type: none"> ➢ The Company introduced the OHSAS18001&TOHSMS occupational safety and health system in 2017. Through the cyclic management mechanism of planning (Plan), execution (Do), check (Check) and improvement (Act), the self-established sound occupational safety and health management system helps the Company to build a safe and comfortable working environment and realize the more comprehensive management. It is approved by OHSAS18001&TOHSMS in December 2017. ➢ The Company has been certified by ISO45001: 2018 revision in December 2019, providing employees with a fair, reasonable, safe, and healthy working environment. 				

Evaluation Item	Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No	Brief Description	
<ul style="list-style-type: none"> ➤ Upload the English financial report to the Market Observation Post System within two months of the end of the reporting period. ➤ Specifically disclose the diversification of the members of the Board of Directors in the Company's annual report and on the website. ➤ Specifically disclose the information security policies and specific management plans in the annual report. 				

Attachment 1: Training Record of Directors and Independent Directors in 2019

Title	Name	Date of Training	Organized by	Name of Course	Training Hours	Total Training Hours in 2019
Director	Nick Yeh	2019.11.07	Taiwan Investor Relations Institute	New rules and trends in corporate governance essential for directors and supervisors in 2019.	3	6
		2019.08.23	Taiwan Corporate Governance Association	Analysis of the global top 10 risks in 2019.	3	
Director	Jason Chen	2019.09.03	Taiwan Printed Circuit Association	A new focus of corporate sustainable development.	3	9
		2019.05.10	Taiwan Corporate Governance Association	Theoretical discussion and case study on the Company's main assets.	3	
		2019.04.26	Taiwan Corporate Governance Association	Impact of changes to corporate governance, internal control, and directors' and supervisors' responsibilities from the latest Company Act amendment.	3	
Director	Hsu, Hung-Ming	2019.06.20	Securities & Future Institute	Analysis of the early warning and types of enterprise financial crisis.	3	6
		2019.06.18	Securities & Future Institute	New rules and trends in corporate governance essential for directors and supervisors in 2019.	3	
Director Representative of the Corporation	Frank Lian	2019.11.12	Taiwan Institute of Directors	The 8th Annual Chinese Family Business Forum.	3	6
		2019.06.26	Taiwan Institute of Directors	A+ Corporate X Shareholder Value.	3	
Independent Director	Chia-chin Tung	2019.08.16	Taiwan Corporate Governance Association	Case study of disputes on the directors' financial statement fraud.	3	6
		2019.03.12	Taiwan Corporate Governance Association	2019 global risk trends.	3	
Independent Director	William Hung	2019.12.06	Taiwan Corporate Governance Association	Provision of Company information - Taking information rights of the directors as the core.	3	6
		2019.12.03	Taiwan Corporate Governance Association	Analysis of the global top 10 risks in 2019.	3	
Independent Director	Bill Chen	2019.05.17	Accounting Research and Development Foundation	Analysis of relevant regulations and corresponding practices of the new corporate governance blueprint (2018-2020).	3	6

		2019.05.16	Accounting Research and Development Foundation	Analysis of trends and practical cases study of corporate governance practice.	3	
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3.4 Operation of the Company's Remuneration Committee

3.4.1 Responsibilities of the Company's Remuneration Committee:

The Remuneration Committee aims at establishing and regularly reviewing the performance evaluation procedure for directors and managers as well as establishing compensation policy, system, standard and structure and regularly reviewing the compensation of directors and managers.

3.4.2 Composition of the Company's remuneration committee:

The Company's remuneration committee was established on December 22, 2011. According to related regulations of the Securities and Futures Bureau, Financial Supervisory Commission, the professional qualification and independence criteria of the 3rd Remuneration Committee's members are below:

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note1)										Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan	
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10		
Independent Director Chia-chin Tong			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director William Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director Bill Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3

Note :

Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.4.3 Remuneration Committee Meeting Status

The tenure of the Company's 3rd remuneration committee is from June 26, 2017 to June 15, 2020. The convener, Mr. Chia-chin Tong held Fifth sessions in 2019 and the attendance of members is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Independent Director	Chia-chin Tong	4	1	80%	
Independent Director	William Hung	4	1	80%	
Independent Director	Bill Chen	5	0	100%	

- (1) In cases the Board doesn't adopt or revise Remuneration Committee's proposals, the Company shall list date/number of the Board meeting, agenda, the Board's resolution and the Company's response to Remuneration Committee's proposal: None.
- (2) In cases Remuneration Committee members have dissenting opinions or qualified opinions against the resolution and recorded with notes in paper, the Company shall list date, number of the Remuneration Committee meeting, agenda, all members' opinion and the follow-up of the members' opinion: None.

Attachment 1: Remuneration Committee's Resolutions on Major Proposals and Action Taken by GPM in Response to the Remuneration Committee's Resolutions

The date of remuneration committee Meeting	Proposals and Follow-up Actions
7nd Meeting of the 3rd Term	1.Proposal for the distribution of 2018 year-end bonus for senior executives.
	Resolution: Adopted by all attending members of the Remuneration Committee.
	Action taken by GPM in response to the Remuneration Committee's resolution: Adopted by attending members of the Remuneration Committee (including those by proxy) other than senior executives excusing themselves from the discussion and voting due to the conflict of interests according to laws.
8rd Meeting of the 3rd Term	1.Proposal for the distribution of 2018 remuneration for employees and directors.
	Resolution: Adopted by all attending members of the Remuneration Committee.
	Action taken by GPM in response to the Remuneration Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.
9th Meeting of the 3rd Term	1.Proposal for the distribution of 2018 remuneration for directors and employee remuneration for senior executives.
	2. Proposal for the adjustment of 2018 salary for senior executives.
	Resolution: 1.Adopted by attending members of the Remuneration Committee (including those by proxy) other than senior executives excusing themselves from the discussion and voting due to the conflict of interests according to laws. 2.Adopted by all attending members of the Remuneration Committee.
	Action taken by GPM in response to the Remuneration Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.
10th Meeting of the 3rd Term	1. The Resolution for the Appointment of the Accounting and Finance Officer Remuneration has been Approved.
	Resolution: Adopted by all attending members of the Remuneration Committee.
	Action taken by GPM in response to the Remuneration Committee's resolution: After being proposed in the Board meeting for discussion, the resolution was adopted by all attending directors.
11th Meeting of the 3rd Term	1.Proposal for the distribution of 2019 year-end bonus for senior executives.
	Resolution: Adopted by all attending members of the Remuneration Committee.
	Action taken by GPM in response to the Remuneration Committee's resolution: Adopted by attending members of the Remuneration Committee (including those by proxy) other than senior executives excusing themselves from the discussion and voting due to the conflict of interests according to laws.

3.5 Taiwan Corporate Social Responsibility Implementation as Required by the Taiwan Financial Supervisory Commission :

Evaluation Item		Implementation Status		Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”	
		Yes	No		Brief Description
Does the Company conduct risk assessments of environmental, social, and corporate governance issues related to the Company's operations according to the materiality principle, and formulate relevant policies or strategies for risk management? (The materiality principle applies to the environmental, social and corporate governance issues may have a significant impact on the investors and other stakeholders.)		√		<p>Gallant Precision Machining Co., Ltd is willing to take the social responsibilities and protect the basic human rights of the staff. We acknowledge and adhere to the "Universal Declaration of Human Rights", "United Nations Global Compact", "United Nations Guiding Principles on Business and Human Rights" and other conventions published by International Labor Organization in order to eradicate all and any violations of human rights and explicitly declare the stand on the fair and equal treatment for the staff. The Company also acts in accordance with applicable laws and regulations on labor and gender equality and has established relevant policies and measures to protect the human rights of the labor.</p> <p>In accordance with the principle of materiality, the Company has established communication channels on the website for shareholders, customers, suppliers, employees, and other stakeholders to give an opinion on major issues.</p> <p>The Company establishes the procedures for risk management in accordance with ISO9001, reinforces the internal management measures based on the results of risk identification, and sticks to the Company's philosophy of sustainable operation.</p>	None
Does the Company formulate policies or establish systems for corporate social responsibilities and review the effectiveness?		√		<p>The Company has established a "Standards for Corporate Social Responsibility", through the operation and under the management of the Enterprise Sustainability Committee, the results of the implementation are reported to and reviewed by the Board of Directors at least once a year.</p>	None
Environmental issues	Does the Company commit to improving the utilization efficiency of various resources and using recyclable materials with low impact on the environment?	√		<p>When designing, the Company chose smaller power transmission components to lighten the machine and high-efficiency power supply components (e.g. converter) to save energy; the cooling water source configuration is adopted for the water circulation system, the designing of shared filters for multiple machines can incorporate one manufacturing process with another and reuse the water resource by repouring the water filtered by the cleaner back to the system, and in turn to save up to 60% of water.</p>	None

Evaluation Item	Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No	Brief Description	
Environmental issues	Does the company assess the potential risks and possibility of climate change and its impact on the Company now and in the future, and take corresponding measures to address the said issues?	√	<p>In response to the impact of global warming and climate change, Gallant has committed to the environmentally friendly development, green supply chain management, efficient energy use so as to reduce the environmental pollution from the manufacturing process. We also place importance on the greening around the premises.</p> <p>For the manufacturing process, Gallant commits to the effective utilization of chemicals and electricity and water resources; we have built wastewater treatment facilities by which the wastewater from the manufacturing process is properly treated so as to meet the standards of effluent. The effluent is treated by the well-equipped facilities before being discharged. The waste disposal and recycling are delegated to a qualified contractor.</p> <p>To attain sustainable business operation, we will endeavor to fulfill our corporate environmental responsibility, maintain environmental quality, and build a bright future</p>	None
Environmental issues	Does the Company count the greenhouse gas emissions, water consumption, and total weight of waste of the past two years and formulate policies for energy conservation and carbon reduction, greenhouse gas reduction, water use reduction, or waste management?	√	<p>In response to climate change, the Company actively promotes and reforms the measures for greenhouse gas reduction and management, including energy-saving productivity improvement programs, such as lighting management, energy management, and water resources management.</p> <p><u>Carbon reduction</u></p> <p>For energy saving and carbon reduction, the company has committed to replacing the ordinary lamp with energy-saving one to reduce the consumption of petrochemical fuel.</p> <ul style="list-style-type: none"> ● In 2019, the total outsourced electricity was 2,545,900 kWh, the CO2 emissions were 1,365,943 kg. ● Compared with 2018, the electricity consumption increased by 65,460 kWh in 2019 due to the development of new process equipment. ● In 2019, the total investment in the installation of energy-saving lamps was NT \$ 450,000, the electricity consumption thereby decreased by 58,627 kWh and CO2 emissions decreased by 31,248 kg. 	

Evaluation Item		Implementation Status		Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"	
		Yes	No		Brief Description
Environmental issues	Does the Company count the greenhouse gas emissions, water consumption, and total weight of waste of the past two years and formulate policies for energy conservation and carbon reduction, greenhouse gas reduction, water use reduction, or waste management?	√		<p>Waste management The Company pays much attention to the "garbage reduction and recycling". The waste recycling is a top priority, improved waste management can lead to mitigated environmental impact. Compared with 2018, the amount of waste decreased by 960 kg in 2019. The outcome of the measures is disclosed on the Company's website.</p>	None
Social issues	Does the Company formulate relevant management policies and procedures in accordance with applicable regulations and the "International Bill of Human Rights"?	√		The Company acts in accordance with applicable labor laws and regulations and value the internationally recognized basic labor human rights principles to protect employees' legal rights, implement a fair and non-discriminatory employment policy, and formulate appropriate management systems for supervising and managing.	None
Social issues	Does the Company formulate and implement reasonable employee welfare measures (including remuneration, vacation, and other benefits), and appropriately reflect the operating performance or results in the employee's remuneration?	√		Pursuant to Article 30 of the Articles of Association of the Company, the Company shall distribute employee remuneration within a range between 1% and 12% of the annual profit, formulate a competitive salary and compensation policy, and give priority to a human resources strategy of retaining talents. The Company conducts the industry salary survey once a year to formulate a reasonable and competitive salary system as well as varies the distributed amount based on the employee's operating performance and actual contribution. The Company also provide the employee incentives, such as innovation research bonus, proposal improvement bonus, outstanding team performance bonus, and outstanding employee bonus to arouse the employees' enthusiasm for work and teamwork and share the fruits of hard work with every member. Furthermore, a reward and punishment system is established to impose the punishment according to the seriousness of the violation. The Company purchases the employees the labor and health insurance, life insurance, accident insurance and disease, cancer, and disability insurance, and provides a retirement pension.	None

Evaluation Item		Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"
		Yes	No	Brief Description	
Social issues	Does the Company create a safe and healthy working environment for employees, and regularly provide safety and health education courses for the staff?	√		<p>The Company has been certified by ISO45001: 2018 revision in December 2019, providing employees with a fair, reasonable, safe, and healthy working environment.</p> <p>ISO45001:2018 revision</p> <ul style="list-style-type: none"> ●The Company institutes an indoor smoking ban to create a better working environment for employees. We also provide high-quality software and hardware for which the Company is recognized and praised by the competent authority in 2019: <ul style="list-style-type: none"> ➢Being granted by the Taichung City Government as a 3-star enterprise in the Happy Workplace Competition - "The Enterprises Enrich the City, the Labor Make the Business Prosperous" (Taichung Factory) ● The Company has set up the "automatic external defibrillator" (AED) within the premises and provided CPR and AED operation training courses for employees. ●The Company has formulated the "Measures for Sexual Harassment Prevention and Punishment" to achieve gender equality and human dignity and provide a friendly working environment. ● The Company institutes an indoor smoking ban to create a better working environment for employees. We also provide high-quality software and hardware for which the Company is recognized and praised by the competent authority in 2019: <ul style="list-style-type: none"> ➢ Being selected by the Taichung City Government as a 3-star enterprise in the Happy Workplace Competition - "The Enterprises Enrich the City, the Labor Make the Business Prosperous" (Taichung Factory) ● The Company has set up the "automatic external defibrillator" (AED) within the premises and provided CPR and AED operation training courses for employees. ●The Company has formulated the "Measures for Sexual Harassment Prevention and Punishment" to achieve gender equality and human dignity and provide a friendly working environment. 	None

Evaluation Item		Implementation Status		Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”	
		Yes	No		Brief Description
Social issues	Does the Company create a safe and healthy working environment for employees, and regularly provide safety and health education courses for the staff?	√		<ul style="list-style-type: none"> ● Each factory regularly provides safety and health on-the-job education and training, conducts thematic emergency response drills (such as emergency evacuation, fire drills, chemical leak response, etc.), holds lectures on health and a series of health promotion activities to jointly create and maintain a healthy and safe working environment. ● For the working environment, the Company carries out the operating environment monitoring every six months to evaluate individual exposure and, based on the results, to improve the working environment. The staff is required to have a full physical examination once a year. New employees are required to take the medical examination (frequency and items more than the requirements of law), for workers working in a harsh or <i>unsafe</i> environment, the special items would be included. On the website, the Company discloses relevant information about the implementation. 	None
Social issues	Does the Company establish effective career development training programs for employees?	√		The Company has created a good environment for facilitating the career development of employees and established effective career development training programs. For the implementation of the education and training, please refer to page 80 of this annual report	None
Social issues	When providing products and services, does the company pay attention to customers' health, safety, and privacy, conduct the marketing and labeling in accordance with relevant regulations and international standards, and formulate policies and grievance procedures to protect consumers' rights?	√		The Company conducts the marketing and labeling in accordance with relevant regulations and international standards without any deceptive, misleading, fraudulent, or other behavior that may undermine customers' trust or damage customers' rights and interests. For many years, Gallant sticks to our quality policy - "Quality First, Customer Foremost, Keep Improving and Creating Value" to build a professional customer service team and a comprehensive sales and service system. To provide quality services, we have set up a 24 hours hotline - 0800-387-387 and disclosed the dedicated mailboxes of the business center and customer service center on the website, through the said channels, the complaint about the products and services can be appropriately and explicitly addressed. The personal data provided by customers will be handled in accordance with the Company's "Measures for Personal Data Management" and applicable regulations to protect customers' privacy.	None

Evaluation Item		Implementation Status		Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”	
		Yes	No		Brief Description
Social issues	When providing products and services, does the company pay attention to customers' health, safety, and privacy, conduct the marketing and labeling in accordance with relevant regulations and international standards, and formulate policies and grievance procedures to protect consumers' rights?	√		<p>The Company is responsible for our products and services. We pay much attention to marketing ethics and does not engage in any form of unfair business activities. Through the stages of research and development, procurement, production, operation, and service, the transparency and safety of information about products and services are always kept in our mind. In order to prevent consumers' rights from being damaged by the products or services and help customers to enhance competitiveness and increase the added value, the Company has formulated and disclosed the customer right policy, and implement it in the daily operation.</p>	None
Social issues	Does the Company formulate and implement supplier management policies, by which the suppliers are required to follow relevant regulations on environmental protection, occupational safety and health or labor human rights?	√		<p>The Company has established a supplier evaluation system based on the "Procedures for Supplier Management" to dispatch an evaluation team to conduct on-site inspections and evaluations. Through the "Supplier On-site Evaluation Form", the information about supplier's production capacity, quality system, R&D capabilities, etc is obtained. During the annual supply chain conference, in addition to conveying the sustainability philosophy and goals of Gallant Precision Machining Co., Ltd, we also express our admiration for outstanding suppliers in four aspects (quality improvement, cost reduction, reliable delivery, and sustainable performance).</p> <p>In addition to the transaction status and product quality, the reputation of the supplier (for environmental protection, safety, and health, etc) is also incorporated in the evaluation items and taken into consideration when ranking and scoring.</p> <p>For the year 2019, the award ceremony of outstanding contractors was suspended due to the COVID-19. The ISO annual evaluation was adopted instead.</p> <p>If the Company finds that the supplier violated the corporate social responsibility policy and the violation has a significant impact on the environment and society during the actual evaluation, the business transactions will be suspended or terminated. The company also actively helps suppliers to improve and enhance product quality and promulgate our philosophy of green procurement and environmental protection.</p>	None

Evaluation Item	Implementation Status		Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"
	Yes	No		Brief Description
	√		According to the "Procedures for Supplier Management", a confidentiality agreement must be signed between the supplier and the Company for the cooperation to define the rights and obligations of both parties. The Company reserved the right to take legal action for possible infringement. The Company's suppliers are required to sign the "Social Responsibility, Probity and Integrity Commitment". If the supplier violates the commitment and the violation has a significant adverse impact on the environment and society, the Company may terminate or cancel the contract at its sole discretion.
Does the Company refer to internationally recognized standards for or guidelines on report preparation to prepare corporate social responsibility reports and other reports disclosing the non-financial information of the Company? Is the said report certified or endorsed by a third-party certificate authority?	√		The Company refers to internationally recognized standards for or guidelines on report preparation and attempted to prepare a preliminary version of the corporate social responsibility report, but it is still unfinished. Gallant commits to the transparency of information, therefore what we expect is a formal corporate social responsibility report.
<p>If the Company has formulated its own code of corporate social responsibility based on the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please specify the implementation and its deviations from the official requirements:</p> <p>The Company has established a "Standards for Corporate Social Responsibility", and there is no significant deviation from the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies". It is available on the Company's website or Market Observation Post System. For the performance of corporate social responsibilities, please refer to this annual report or Company's website.</p>			
<p>Other important information that helps to understand the performance of corporate social responsibility:</p> <ol style="list-style-type: none"> For daily water usage, water-saving appliances are installed across the factory to reduce water consumption while the ordinary lamps are gradually replaced by energy-saving one to reduce CO2 emissions. 50 400W mercury high bay lights were replaced by 120W LED lamps, reducing the electricity consumption by 52,272 kWh, the CO2 emissions by 30,187 kg for the year. 146 T8 fluorescent tubes were replaced by LED tubes, reducing the electricity consumption by 6,355 kWh, the CO2 emissions by 1,895 kg for the year. Continue greening around the premises and increase the coverage of vegetation. In 2018, the CTSP factory was recognized as an outstanding plant in the "Taichung City Greening and Beautification Selection". <p>Public welfare: In order to fulfill our social responsibilities, the Company frequently launches various campaigns and encourages the employees to actively participate in related activities. In 2019:</p>			

Evaluation Item	Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"
	Yes	No	Brief Description	
<u>Reaching out to rural schools in Hsinchu County</u>				
1. Scholarship for Tao Shan Elementary School/Hua Yuan Elementary School/Wu Feng Junior High School/Jian Shi Junior High School The elementary school student with a total score greater than the standard score has received a subsidy of NT\$ 600; the junior high school student with a total score greater than the standard score has received a subsidy of NT\$ 1000. Even if it is below the standard score, there are still subsidies for students having the greatest progress within the semester. For the year, an amount of NT \$ 252,200 was given out to 311 students.				
<u>Cooperation with non-profit organizations</u>				
1. Sponsoring the National Tsing Hua University's Kenya International Volunteer Team and helping the group to carry the donated items and equipment to the local partner school to support information education. 2. Selling 252 pieces of CD provided by Tao Shan Elementary School to raise money, employee voluntary donations, continuing promoting public welfare activities and sponsoring schools and underprivileged minorities. The amount reached NT\$ 158,100. 3. The G-SXA band composed of the Company's top executives went up the mountain to play saxophone with the kids of Tao Shan to encourage them to bravely pursue their dreams. 4. Supporting and helping charities. Placing an order worth NT \$ 199,880 with the Yu An Retarded Children's Home in Miaoli County for the Mid-Autumn Festival gifts to the employees.				
<u>Bailout and fundraising</u>				
1. Donate invoices: Initiating a "Donate Invoices Can be a Charity" activity to help social welfare organizations 2. Donating second hand and used items to the Genesis Social Welfare Foundation from time to time				
<u>Campus and corporate visits</u>				
College, university, and company visits: 12 times, providing the detailed introduction of optoelectronic equipment, helping students and staff understand the optoelectronic equipment industry, arranging production line supervisors to usher students to the working environment, and promoting industry-university cooperation.				
<u>Industry-university cooperation</u>				
1. Sponsoring the 2019 Annual Project Implementation Competition of Chung Yuan Christian University. 2. National Colleges and Universities Intelligent Mobile Equipment Innovation Award: In order to encourage domestic college and university students to invest time and effort in intelligent cross-disciplinary design and implementation, enhance the technical capabilities for system design, and promulgate the spirit of the original Industry Advanced Equipment and Talent Cultivation Plan of the Ministry of Education, the innovation award is organized by the Company, co-organized by National Taiwan University, National Chung Hsing University, and National Kaohsiung First University of Science and Technology, and implemented by Taiwan Electronic Equipment Industry Association, in the expectation that the combination of the cooperation between industry and universities and the trend of industrial structure transformation can engage students in the field of intelligent manufacturing, and, through the exchange of knowledge and technology facilitated by demonstration and learning, cultivate excellent intelligent manufacturing talents and build design capacity for the country, and in turn enhance industrial competitiveness. 3. Scholarships for graduate students at the Department of Mechanical Engineering, National Taiwan University: Providing scholarships to graduate students to build talent pool, offering grants during the school years and employment opportunities after graduation. 4. The promotion of internship credits program: Promoting the talents cultivation of industry-university cooperation to establish the stabilized talent pools for the industry, effectively utilizing the resources provided by the official "Industry-University Cooperation Talents Cultivation Plan" to offer more internship opportunities for students, taking advantage of the characteristics and abilities of young people to boost the energy and stimulate the creativity for the organization, and temporarily filling the gap of manpower to enable the future talent discovery.				

Evaluation Item	Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No	Brief Description	
<p>In 2019, the Company invested about 2.75 million in industry-university cooperation.</p> <p>While pursuing sustainable business operations, the Company also incorporates Corporate Social Responsibility (CSR) into our business strategy, implements it in daily operations, such as corporate governance, employee care, shareholder right, social care, and environmental protection. It is also considered as an annual goal or an important operation item.</p> <p>If the Company's corporate social responsibility report meets specific standards of the relevant verification agency, it should be specified: Not applicable.</p>				

3.6 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission :

Evaluation Item	Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No	Brief Description	
Formulating policies and plans for ethical management	Does the Company formulate an ethical corporate management policy approved by the Board of Directors, and specify the policies and practices of ethical management and the Board of Directors and top executives' commitment to actively implement the policies in the regulations and external documents?	√	The Company established the "Rules for Ethical Corporate Management" and "Code of Conduct" to incorporate the provisions must be followed by the Company and employee on June 17, 2016 and carried out the promotion activities from time to time. For the year 2019, the implementation of the rules and provisions were reported to the Board of Directors on December 19, 2019 and disclosed on the Company's website.	None

Evaluation Item	Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"	
	Yes	No	Brief Description		
Does the Company establish a risk assessment mechanism for dishonesty, regularly analyze and evaluate the activities with a higher risk of dishonesty within the business scope, and, based on results, formulate a plan to prevent the dishonesty, and at least incorporate the precautionary measures against the items set out in paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" in the plan?	√		The "Rules for Ethical Corporate Management" of the Company specifies the precautionary measures for dishonesty, such as providing illegal political contributions, offering or accepting inappropriate gifts, services, and other improper benefits, and infringing business secrets and intellectual property rights. Employees are required to sign a "Non-Disclosure and Digital Data Authorizing Agreement" to prevent business secrets. In addition to the "Rules of Ethical Corporate Management", the Company also formulate the "Procedures for Acquisition or Disposal of Assets", "Procedures for Endorsement and Guarantee", "Procedures for Loan to the Third Party", "Procedures for Related Person Transaction", etc...	None	
Does the company formulate and implement a dishonesty prevention plan, indicate the operating procedures, guidelines, disciplinary measures, and grievance procedures, and regularly review and revise the said plan?	√		The company has formulated a "Regulations for Reporting and Handling Illegal, Unethical or Dishonest Behavior" and regularly reports to the Board of Directors on the implementation every year.	None	
Implementing ethical management	Does the company assess the history of the ethical conduct of the counterparty and incorporate the terms of ethical conduct in the contract with the counterparty?	√		The Company sticks to the commitment to fairness and transparency when engaging in business activities. Before entering into a partnership, we will carefully investigate the counterparty to avoid cooperating with a company engaging in dishonest activities. When entering into a commercial contract with the counterparty, the terms and conditions will be reviewed by the legal unit to avoid cooperating with a company engaging in dishonest activities. For the course for employees on ethical management, please refer to page 48 of this annual report. The Company's suppliers are required to sign the "Social Responsibility, Probity and Integrity Commitment". If the supplier violates its commitment of ethical conduct, it will be subject to a penalty for the bribery and improper benefit, and, in this case, the Company has the right to terminate, suspend or cancel the transaction at its sole discretion.	None

Evaluation Item	Implementation Status			Reasons for the Deviations from “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”
	Yes	No	Brief Description	
Does the Company set up a unit subordinate to the Board of Directors and dedicated to facilitating and monitoring the implementation of ethical management, and the unit is required to report to the Board of Directors regularly (at least once a year) on the implementation of ethical management policy and dishonesty prevention plan?	√		The Company's Enterprise Sustainability Committee is responsible for the implementation of ethical management, and an audit office subordinate to the Board of Directors is established to detect the internal and external violations. Serious violations will be reported to the Board of Directors in accordance with relevant laws and procedures. The implementation will be reported to the Board of Directors once a year (during the fourth quarter). For the year 2019, the implementation was reported to the Board of Directors on December 19, 2019.	None
Does the Company formulate and implement policies to prevent conflicts of interest and build accessible communication channels?	√		The internal regulations and employee code of conduct is disclosed on the Company's internal website, and the staff will be notified of any revision. Externally, a stakeholder area is set aside on the website of the Company (URL: http://www.gpmcorp.com.tw/zh-tw/csr/index/19).	None
Implementing ethical management Does the Company establish an effective accounting system and internal control system for the implementation of ethical management, and the internal audit unit formulates relevant audit plans based on the results of the risk assessment of dishonesty, and, according to the plans, carries out the audit of the compliance with the procedures or appoints an accountant to do so?	√		The company has established an internal control system, detailed rules of internal audit, accounting system, and various management regulations, the above-mentioned regulations are implemented and help the Company to attain ethical management. A report produced by the annual internal audit of implementation will be delivered to each independent director before the end of the following month, and the results will be regularly reported to the Audit Committee and the Board of Directors.	None

Evaluation Item	Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"
	Yes	No	Brief Description	
Does the Company regularly carry out internal and external education and training on ethical management?	√		The Company regularly carries out relevant education and training of ethical management. In 2019, the Company carried out relevant internal and external education and training of ethical management for employees (including courses on laws and regulations of ethical management, legal practice, advanced financial management, laws and regulations of insider trading and returning rights, accounting system, and internal control). The total hour of the courses and the number of participants is 939 and 316 respectively, the relevant operating procedures and guidelines have been posted on the Company's internal website.	None
Implementation of the reporting system of the Company		√	The Company has formulated the "Regulations for Handling the Reported Illegal and Unethical or Dishonest Behaviors" established reporting and complaint channels, such as reporting hotline and e-mail address and related disciplinary measures. The channels will be regularly reviewed and revised in order to enable effective and full communication of and quick response to the issues, and promptly assign appropriate personnel to investigate the alleged perpetrator.	None
Does the Company establish the standard operating procedures for the investigation of alleged violations, the follow-up measures to be taken after the investigation, and the relevant confidentiality mechanism?	√		The Company has formulated the reporting procedures and provided a "complaint channel for violation of professional ethics" and an address on the Company's website for reporting the violations. The identity of the informer and content of the report will be treated as strictly confidential. The investigation results will be provided through E-mail.	None
Does the Company take measures to protect the informer from improper treatment or reprisal?	√		The Company is responsible for the confidentiality of the informer and has taken measures to informer from improper treatment or reprisal.	None
Enhance information disclosure Does the Company disclose the content of the "Rules of Ethical Corporate Management" and information about the implementation on the website and the web page of the Market Observation Post System?	√		The "Rules of Ethical Corporate Management" of the Company has been uploaded to the web page of the Market Observation Post System and disclosed on the Company's website http://www.gpmcorp.com.tw/zh-tw/investor/index/64	None

Evaluation Item	Implementation Status			Reasons for the Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"
	Yes	No	Brief Description	
<p>If the Company has formulated its code of ethical corporate management based on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please specify the implementation and its deviations from the official requirements:</p> <p>The Company acts in compliance with the domestic laws and regulations and requests the employees to comply with relevant internal regulations. The implementation of ethical management is grounded on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies".</p>				
<p>Other important information that helps to understand the implementation of ethical management : (such as reviewing and revising the code of ethical management):</p> <ol style="list-style-type: none"> 1. The Company has established the "Procedures for Handling Internal Material Information Preventing Insider Trading" to stipulate that, a natural person designated as the proxy according to Article 27 of the Company Act to exercise the directors and managers' duties and other persons exposed to material information due to his/her identity, occupation or control relationship, shall be loyal and on good faith and trust, and exercise the due care of a good administrator when conducting the business operation as well as sign a non-disclosure agreement. Directors, managers, and employees exposed to the Company's internal material information shall not reveal any information to the third party. 2. The Company's certifying accounting firm is PricewaterhouseCoopers Taiwan. The accountant does not serve as a director of the Company and maintains both professional and independence, which is reviewed by the Audit Committee and the Board of Directors every year and supported by a "Declaration of Independence" presented by the accountant; the accountant is responsible for regularly auditing each major cycles and internal controls, and providing advice on the internal controls and accounting matters. 3. The Company's suppliers are required to sign the "Social Responsibility, Probity and Integrity Commitment" to specify its commitment concerning the working condition, morality and environment, such as anti-discrimination, prohibiting from hiring child labor, sticking to high moral standards, being prudent when handling the personal data of customers, protecting intellectual property rights, stating the metals used in the products or components are not banned by the procedures and standards for conflict minerals and waste management. If any violations, the supplier will be subject to a penalty for the bribery and improper benefit, and, in this case, the Company has the right to terminate, suspend or cancel the transaction at its sole discretion. 				

3.7 More detailed information on corporate governance guidelines and regulations:

The Company established GPM's "Corporate Governance Practice", please go to MOPS (<http://mops.twse.com.tw/mops/web/index>) or the Company's website (<http://172.16.1.182/zh-tw/investor/index/64>)

3.8 Other Important Corporate Governance Information

The Company established "Handling of Internal Material Information and Prevention of Insider Trading Management Procedure" as a reference for handling of material information and disclosure. Depending on situation, the above procedure is subject to review from time to time in matching current laws and management needs. This procedure is also available in the internal document management system for managers and employees.

3.9 Internal Control System Execution Status

3.9.1 Statement of Internal Control System

Gallant Precision Machining Co., Ltd.

Statement of Internal Control System

Date: March 24, 2020

Gallant Precision Machining Co., Ltd. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2019, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the “Criteria for the Establishment of Internal Control Systems of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on March 24, 2020 with all Directors in session under unanimous consent.

Gallant Precision Machining Co., Ltd.



Nick Yeh
Chairman



Jason Chen
President

3.9.2 If CPA was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report:

None.

3.10 In the most recent year and up to the date of publication of the annual report, for the penalties imposed on the Company and its internal personnel for violating the laws, the penalties imposed by the Company on its internal personnel for non-compliance with the internal control program, to the extent that the penalty may have a significant impact on the equity of shareholders or the price of securities, the content, the items of major non-compliances and the improvements made for the non-compliance shall be specified.:

None.

3.11. Major Resolutions of Shareholders' Meeting and Board Meetings

Meeting Title	Meeting Date	Important Resolutions and Implementation
Shareholders' Meeting	2019.06.25	<ol style="list-style-type: none"> 1. Adoption of the 2018 Business Report and Financial Statements. 2. Adoption of the distribution of 2018 earnings. 3. Approval of the amendment to the "Articles of Incorporation". 4. Approval of the amendment to the "Regulations Governing Election of Directors". 5. Approval of the amendment to the "Procedures for Acquisition or Disposal of Assets". 6. Approval of the amendment to "Procedures for Lending Funds to Other Parties. " 7. Approval of the amendment to " Procedures for Endorsements & Guarantees." 8. The Board of Directors on June 25, 2019 had set the date of August 3, 2019 as the ex-dividend date, with the cash dividend (NT\$1.3 per share) of the profit distribution to be distributed to shareholders on August 16, 2019. There is no difference between the amount of distribution and the amount approved by the general shareholders' meeting. 9. The amendment to the "Articles of Incorporation" has been duly approved by Hsinchu Science Park Bureau, Ministry of Science and Technology, in its official letter dated July 15, 2019 (ref. Official Letter Chu-Shang-Tzu No.1080020807).

Name of meeting	Date of meeting	Important Resolutions
Board of Directors	2019.01.08	<ol style="list-style-type: none"> 1. Approval of the distribution of 2018 year-end bonus for senior executives. 2. Approval of the amendment to the "Articles of Incorporation". 3. Approval of the amendment to the "Regulations Governing Election of Directors". 4. Approval of the amendment to the "Procedures for Acquisition or Disposal of Assets".
Board of Directors	2019/03/26	<ol style="list-style-type: none"> 1. Approval of 2018 examination on effectiveness of internal control system and Statement of Internal Control System. 2. Approval of the amendment to "Procedures for Lending Funds to Other Parties. " 3. Approval of the amendment to " Procedures for Endorsements & Guarantees." 4. Approval of the distribution of employees' and directors' remuneration of 2018. 5. Approval of the 2018 Business Report and Financial statements 6. Approval of the proposal for the distribution of 2018 earnings 7. Approval of matters related to the general shareholders' meeting of 2019, including related matters in receiving shareholders' proposals and nominations. 8. Approval of the renewal of loan commitments to financial institutions.
Board of Directors	2019/05/08	<ol style="list-style-type: none"> 1. Approval of the "Operating Procedures for Handling Requests Made by Directors". 2. Approval of the amendment to the "Articles of Incorporation".
Board of Directors	2019/06/25	<ol style="list-style-type: none"> 1. Approval of adopting related matters to the 2019 cash dividends record date. 2. Approval of the 2018 allocation of bonus to directors and high-level managers. 3. Approval of the 2019 senior management salary adjustment.
Board of Directors	2019/07/31	<ol style="list-style-type: none"> 1. The Resolution for the Appointment of the Accounting and Finance Officer has been Approved.
Board of Directors	2019/08/12	<ol style="list-style-type: none"> 1. The Resolution for the Remuneration of the Company's Accounting and Finance Director has been Approved.

		<p>2. Approval of the amendment to "Audit Committee Charter".</p> <p>3. Approval to the Company's 2019 mid-term budget amendment.</p> <p>4. Approval of the renewal of loan commitments to financial institutions.</p>
Board of Directors	2019/11/11	<p>1. Approval of the liquidation of the Suzhou Jianmeifu Optical Co.,Ltd.</p> <p>2. Approval of the liquidation of the Gallant International Trading Co.,Ltd.</p> <p>3. Approval of the renewal of loan commitments to financial institutions.</p>
Board of Directors	2019/12/19	<p>1. Approval of 2020 internal audit plan.</p> <p>2. Approval of the change of external auditor and evaluation of its independence and adequacy</p> <p>3. Approval of the evaluation of current CPAs' independence and competence</p> <p>4. Approval of 2020 annual budget.</p> <p>5. Approval of the liquidation of the Gallant Precision Machinery (Xiamen) Co., Ltd.</p> <p>6. Approval of the endorsement of the guarantee through the Company to its subsidiaries.</p> <p>7. The Resolution for the Amendment of the Company's Professional Manager Retirement Administration Measures has been approved.</p> <p>8. Approval of 2019 Official Year End Bonus Distribution.</p>
Board of Directors	2020.03.24.	<p>1.Approved the 2019 internal control system effectiveness assessment and statement of the Company.</p> <p>2.Approved the amendment to the "Regulation of Board Meeting" of the Company.</p> <p>3.Approved the amendment to the "Rules of Organization of Audit Committee" of the Company.</p> <p>4.Approved the amendment to the "Articles of Association" of the Company.</p> <p>5.Approved the amendment to the "Rules of Organization of Remuneration Committee".</p> <p>6.Approved the proposal of distribution of remuneration of employees and directors in 2019.</p> <p>7.Approved the 2019 financial report and business report of the Company.</p> <p>8.Approved the proposal of distribution of the surplus in 2019.</p> <p>9.Approved the proposal of the first repurchasing of shares of the Company in 2020.</p> <p>10.The 15th director election of the Company.</p> <p>11.Approved the nomination and reviewed the list of independent directors.</p> <p>12.Approved the proposal of cancelling the competition restrictions on the new directors and their representatives.</p> <p>13.Approved the matters related to holding of 2020 regular shareholders' meeting and accepted the content submission of shareholders' proposals.</p> <p>14.Approved the proposal of disposition of Suzhou Guoke Junhao Biotechnology Co., Ltd.</p> <p>15.Approved the proposal of abandoning the cash capital increase of Sunengine Corporation Ltd.</p> <p>16.Approved the proposal of renewal the financing quota agreement with financial institution.</p> <p>17.Approved specific matters to be handled in response to the power and job handover due to the retirement of the current chairman and chief executive officer.</p> <p>18.Approved the proposal of disposition of equity of Sunengine Corporation Ltd.</p>

3.12 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors:

None.

3.13 Resignation or Dismissal of Chairman, President, and Heads of Accounting, Finance, Internal Audit and R&D during the 2019 Calendar Year and as of the Date of this Annual Report:

Title	Name	Date of Assumption of Office	Resignation or Dismissal Date	Reason
Accounting Supervisor	Sandy Ning	2008/08/22	2019/07/22	Resignation

4. Information Regarding GPM's Independent Auditors Report

4.1 Audit Fees

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					CPA's Audit Period	Remark
			System Design	Company Registration	Human Resource	Others (Note 1)	Subtotal		
Pricewaterhouse Coopers Taiwan	LI TIEN YI Kwok-ah Tsang	2,990				300	300	2019.01.01~ 2019.12.31	

Note 1: Audit fee refers to service fee paid to external auditor regarding the audit and review of financial statement, review of financial forecast and tax compliance audit.

Note 2: "Other" means consultation or study on Corporate Act or Securities and Exchange Act and integrated income tax system related service.

4.2. Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee: None.

4.3 Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: Not applicable.

4.4 Audit fee reduced more than 15% year over year: None.

4.5 CPA's information

4.5.1 Former CPAs

Date of Change	January 1, 2020		
Reasons and Explanation of Changes	Due to its internal personal changes, PricewaterhouseCoopers Taiwan updated the audit partners for GPM from LI TIEN YI and Kwok-wah tsang to LI TIEN and TSAI-YEN CHIANG in 2019.		
State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Client	CPA	Consignor
	Status	Not available	
	Appointment terminated automatically		
	Appointment rejected (discontinued)		
The Opinions other than Unmodified Opinion Issued in the Last Two Years and the Reasons for the Said Opinions (Note)	None		
Is there any Disagreement in Opinion with the Issuer	Yes		Accounting principle or practice
			Disclosure of financial statements
			Auditing scope or procedures
			Others
	No	✓	
	Explanation		
Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

4.5.2 Successor CPAs

Accounting Firm	PricewaterhouseCoopers Taiwan
Name of CPA	LI TIEN YI · TSAI-YEN CHIANG
Date of Engagement	January 1, 2020
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	Not available
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	Not available

4.5.3 The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards: None.

5. Changes in Shareholding of Directors, Managers and Major Shareholders

GPM's Chairman, Directors, Chief Executive Officer, Chief Financial Officer, and Managers in Charge of Its Finance and Accounting Operations did not Hold any Positions within GPM's Independent Audit Firm or Its Affiliates in the Most Recent Year.

6. Net Changes in Shareholding

6.1 Net Change in shareholdings and in shares pledged by directors, supervisors, anagement, and shareholders holding more than a 10% share in the Company

Unit: Shares

Title	Name	2019		Jan. 1 to March 31, 2020	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	Nick Yeh	(501,261)	0	0	0
Director/ President	Jason Chen	336,822	0	330,000	0
Director	Hsu, Hung-Ming	0	0	0	0
Director	C SUN MFG. LTD.	2,945,000	0	1,154,000	0
	Representative: Frank Liang	0	0	0	0
Independent Director	Chia-chin Tong	0	0	0	0
Independent Director	William Hung	0	0	0	0
Independent Director	Bill Chen	0	0	0	0
Deputy President	Mufa Chien	35,965	0	0	0
Deputy President	H.M. Lee	39,476	0	0	0
Deputy President	Tu-cheng Wang	41,074	0	0	0
Associate Vice President	Roger Lin	30,186	0	0	0
Associate Vice President	Chen- Shun Hsu	4,356	0	0	0
Chief Financial Officer	Chia-Ju Tseng	14,586	0	0	0

6.2 Stock Trade with Related Party : None.

6.3 Stock Pledge with Related Party : None.

7. Top Ten Shareholders who are related parties to each other

As of August 3, 2019. Unit: Shares / %

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Re- marks
	Shares	%	Shares	%	Shares	%	Name	Relation	
C SUN MFG. LTD.	29,944,827	18.13%	—	—	—	—	None	None	
C SUN MFG. LTD. Representative: Frank Liang	0	0%	0	0%	0	0%	None	None	
Mega International Commercial Bank	4,278,118	2.59%	0	0%	0	0%	None	None	
Chiu, Ta-Hsien	3,188,200	1.93%	0	0%	0	0%	None	None	
Micronics Japan CO., LTD.	2,712,000	1.64%	0	0%	0	0%	None	None	
Nick Yeh	1,825,817	1.11%	0	0%	0	0%	None	None	
CTBC Bank Employee Stock Ownership Trust Account of Gallant Precision Machining Co., Ltd	1,651,529	1.00%	0	0%	0	0%	None	None	
Yi-Wei Investment Co.	1,189,000	0.72%	0	0%	0	0%	None	None	
Tsai, Ching- Hua	1,143,189	0.69%	0	0%	0	0%	None	None	
Hsien, Hsiu-Chin	1,097,432	0.66%	0	0%	0	0%	None	None	
HSBC Hosts Accademia Emerging Markets Small Cap Equity Fund	845,000	0.51%	0	0%	0	0%	None	None	

8. Long-Term Investment Ownership

As of March 31, 2020. Unit: Shares / %

Long-Term Investments	Investments by GPM (1)		Investments Directly or Indirectly Controlled by Directors, Supervisors, and Managers of GPM (2)		Total Investment (1) + (2)	
	Shares	Portion	Shares	Portion	Shares	Portion
Gallant-Rapid Corporation Limited	13,560,000	100	0	0	13,560,000	100
Gallant Precision Machinery (BVI) Ltd.	20,289,000	100	0	0	20,289,000	100
APEX-I INTERNATIONAL CO., LTD.	6,600,000	100	0	0	6,600,000	100
Chun Zhun Enterprise Corporation	3,576,000	100	0	0	3,576,000	100
Gallant Micro. Machining Co., LTD.	16,171,750	57.19	2,150,000	7.60	18,321,750	64.79
Sunengine Co., LTD.	2,156,953	37.84	927,623	16.27	3,084,576	54.12

IV. Capital and Shares

1. Capital and Shares

1.1 Capitalization

As of March 31, 2020

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
06/2015	10	250,000,000	2,500,000,000	165,136,144	1,651,361,440	Capital Reduction and Cancellation of Treasury Shares: 50,000,000	None	06/29/2015 Chu-Shang-Tzu No. 1040022199

1.2 Capital and Shares

Unit: Share

As of March 31, 2020

Type of Stock	Authorized Share Capital			Remark
	Outstanding	Un-Issued Shares	Total	
Common Stock	165,136,144	84,863,856	250,000,000	Listed on Taipei Exchange.

Shelf Registration: None.

1.3 Composition of Shareholders

Common Share

As of August 3, 2019 (last record date)

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	—	1	77	29,980	56	30,114
Shareholding	—	4,278,118	34,909,953	115,536,223	10,411,850	165,136,144
Holding Percentage (%)	—	2.591%	21.14%	69.964%	6.305%	100%

1.4 Distribution Profile of Share Ownership

1.4.1 Common Share

As of August 3 ,2019 (last record date) : Unit: shares / %

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	15,696	1,568,871	0.95
1,000 ~ 5,000	10,472	23,995,503	14.531
5,001 ~ 10,000	2,109	17,380,526	10.525
10,001 ~ 15,000	520	6,692,819	4.053
15,001 ~ 20,000	478	8,882,332	5.379
20,001 ~ 30,000	292	7,523,955	4.556
30,001 ~ 40,000	140	5,109,938	3.094
40,001 ~ 50,000	103	47,84,448	2.897
50,001 ~ 100,000	169	12,684,266	7.681
100,001 ~ 200,000	74	10,544,556	6.385
200,001 ~ 400,000	40	11,770,954	7.128
400,001 ~ 600,000	7	3,522,864	2.133
600,001 ~ 800,000	3	1,984,000	1.201
800,001 ~ 1,000,000	2	1,661,000	1.007
Over 1,000,001	9	47,030,112	28.48
Total	30,114	165,136,144	100

1.4.2 Preferred Share: None.

1.5 Major Shareholders

Common Share

As of August 3 ,2019 (last record date) : Unit: shares / %

Top 10 Shareholders	Total Shares Owned	Ownership (%)
C SUN MFG. LTD.	29,944,827	18.13%
Mega International Commercial Bank	4,278,118	2.59%
Chiu, Ta-Hsien	3,188,200	1.93%
Micronics Japan CO., LTD.	2,712,000	1.64%
Nick Yeh	1,825,817	1.11%
CTBC Bank Employee Stock Ownership Trust Account of Gallant Precision Machining Co., Ltd	1,651,529	1.00%
Yi-Wei Investment Co.	1,189,000	0.72%
Tsai, Ching- Hua	1,143,189	0.69%
Hsien, Hsiu-Chin	1,097,432	0.66%
HSBC Hosts Accademia Emerging Markets Small Cap Equity Fund	845,000	0.51%

1.6 Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT\$ / Thousand shares

Item		2018	2019	Jan. 1 to March 31, 2020	
Market Price Per Share (Note1)	Highest Market Price	31.75	26.60	21.75	
	Lowest Market Price	19.85	18.60	11.00	
	Average Market Price	27.09	22.77	17.00	
Net Worth Per Share	Before Distribution	14.64	14.45	—	
	After Distribution		—	—	
Earnings Per Share	Weighted Average Shares (thousand shares)	166,476	165,136	165,136	
	Diluted Earnings Per Share	Not-Adjusted	2.24	1.51	—
		Adjusted	—	—	—
Dividends Per Share	Cash Dividends	1.3	(Note 5)	—	
	Stock Dividend	—	—	—	
		—	—	—	
	Accumulated Undistributed Dividend	—	—	—	
Return on Investment	Price/Earnings Ratio (Note 2)	12.09	15.08	—	
	Price/Dividend Ratio (Note 3)	20.84	15.18	—	
	Cash Dividend Yield (Note 4)	4.80	6.59	—	

Note 1: Referred to TWSE website

Note 2: Price/Earnings Ratio = Average Market Price/Diluted Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share/Average Market Price

Note 5: Pending for shareholders' approval

1.7 Dividend Policy and Distribution of Earnings

1.7.1 Dividend Policy :

Article 30-1 of the Company's Articles of Incorporation:

No lower than 1% and no higher than 12% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any).

The profit distributable as employees' compensation can be in the form of shares or in cash. The recipient can include the qualified employees from subsidiaries.

The profit for the year referred in the first item means earnings before tax and employees' and Directors' compensation.

Article 31 of the Company's Articles of Incorporation:

If there is a surplus after the current year's accounts, the Company shall pay the tax according to law and make up for the accumulated loss in the previous years, then appropriate 10% of the balance as the statutory surplus reserve. However, if the statutory surplus reserve has reached the total amount of paid-in capital of the Company, then this requirement does not apply.

The Company may, in accordance with its business requirements and the provisions of the laws and regulations, appropriate or reverse a special surplus reserve. The Board of Directors shall draft is authorized to draft an appropriation plan for a resolution in the Shareholders' Meeting.

The ratio for cash dividend shall not lower than 10% of total distribution.

Articles of Incorporation of the Company does not clearly stated the dividend distribution ratio.

However, taking into account the capital requirement, long-term financial planning and shareholders' interest, Board of Directors is authorized to draft an appropriation plan and submit the plan for a resolution in the Shareholders' Meeting.

The status of Shareholders' Meeting on approving the proposal for the distribution of 2019 earnings: Board Meeting dated March 24, 2020 has passed the proposal for the distribution of 2019 earnings as table below. Each share could receive a cash dividend of NT\$1.5. Upon the resolution approved by Shareholders' Meeting dated June 17, 2020, the Company will proceed with following works.

2019 Earnings Distribution Proposal:

	Unit: NT\$
Cash Dividends to Common Shareholders (NT\$1.5 per share)	247,704,216

1.7.2 Description shall be given when expecting a major change in dividend policy:

Not applicable.

1.8 Impact to 2019 Business Performance and EPS Resulting from Stock Dividend Distribution:

Not applicable.

1.9 Compensation to Directors and Profit Sharing Bonus to Employees :

1.9.1 Employees' Compensation and Remuneration to Directors and Supervisors as Stated in the Articles of Incorporation

Article 30-1 of the Company's Articles of Incorporation:

No lower than 1% and no higher than 12% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any).

The profit distributable as employees' compensation can be in the form of shares or in cash. The recipient can include the qualified employees from subsidiaries.

The profit for the year referred to in the first paragraph means earnings before tax and employees' and Directors' compensation.

1.9.2 The estimated employees' compensation and remuneration to Directors and Supervisors, the calculation basis for remuneration to employees, Directors and Supervisors in the form of stocks, and Accounting treatment for any gap between estimated amounts and actual distribution resolved by the Board of Directors:

The Company accrued employees' compensation and remuneration to Directors and Supervisors based on profit of current year minus accumulated loss while the remunerations to directors and supervisors were estimated based on GPM's Articles of Incorporation. The estimated employees' bonuses and remunerations to directors and supervisors were booked as operating cost or operating expense. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price of shares on the day preceding the shareholders' meeting. If there is difference between estimation and actual distribution, it will be treated as change of accounting estimate. The adjustment will be made at the year of distribution.

1.9.3. Profit Distribution of Year 2019 Approved in Board of Directors Meeting for Employee Bonus and Directors' Remuneration :

1. 2019 Directors' Compensation and Employees' Profit Sharing Bonus

Distribution Items	Board Resolution (March 24, 2020)
	Amount (NT\$)
Directors' Compensation (Cash)	6,611,550
Employee's Profit Sharing Bonus (Cash)	39,008,146
Total	45,619,696

2. Ratio of Recommended Employee Stock Bonus to Capitalization of Earnings : Not applicable.

1.9.4 2018 Directors' Compensation and Employees' Profit Sharing Bonus

Distribution Items	Amount (NT\$)
Directors' Compensation (Cash)	9,567,152
Employee's Profit Sharing Bonus (Cash)	53,118,109
Total	62,685,261

1.9.5 Buyback of Common Stock:

As of 04/30/2020

Treasury stocks: Batch Order	13 th Batch
Purpose of buy-back	Transfer to employee
Timeframe of buy-back	2020/03/25~2020/05/24
Price range	NT \$8.65~25.15
Class, quantity of shares bought back	Common Stock 6,000,000 shares
Value of shares bought-back (in NT\$ thousands)	65,960
Shares sold/transferred	0
Accumulated number of company shares held	3,762,000
Percentage of total company shares held (%)	2.28%

2. Issuance of Corporate Bonds : None.

3. Preferred Shares : None.

4. Status of GDR/ADR : None.

5. Status of Employee Stock Option Plan :

5.1 Issuance of Employee Stock Options:

Not applicable.

5.2 Employee Stock Options Granted to Management Team and to Top 10 Employees:

Not applicable.

6. Status of Employee Restricted Stock :

GPM did not issue employee restricted stock in 2019, nor as of the date of this annual report.

6.1 Status of Employee Restricted Stock:

Not applicable.

6.2 Employee Restricted Stock Granted to Management Team and to Top 10 Employees:

Not applicable.

7. Status of New Share Issuance in Connection with Mergers and Acquisitions :

GPM neither issued new shares in connection with mergers or acquisitions during 2019, nor as of the date of this annual report.

8. Financing Plans and Implementation: Not applicable.

V. Operational Highlights

1. Business Activities

1.1 Business Scope

- CQ01010 Die Manufacturing (restricted to area outside the Science Park)
- F106030 Wholesale of Die (restricted to area outside the Science Park)
- F113010 Wholesale of Machinery (restricted to area outside the Science Park)
- CC01080 Electronic Parts and Components Manufacturing (restricted to area outside the Science Park)
- F401010 International Trade
- CB01010 Machinery and Equipment Manufacturing
- CE01010 Precision Instruments Manufacturing
- CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing
- CF01011 Medical Materials and Equipment Manufacturing
- F208031 Retail sale of Medical Equipments
- F108031 Wholesale of Drugs, Medical Goods
- D101060 Self-usage power generation equipment utilizing renewable energy Industry
- E601010 Electric Appliance Construction
- E601020 Electric Appliance Installation
- EZ05010 Apparatus Installation Construction

Research, development, design, manufacturing, and sale of the following items :

- (1) IC Packaging Front End Equipment : IC Die bonder 、 IC Wire bonder
- (2) Flip Chip processing Equipment: Flip Chip Bonder, Chip Sorter, Dispenser Machine
- (3) Semiconductor packaging and testing equipment
- (4) Semiconductor Failure Analysis Testing Equipment
- (5) FPD Processing and Testing Equipment
- (6) Intelligent Total Solutions and Equipment
- (7) Other import and export business of related products

1.2 Revenue Mix(2019)

Product	Operating Percentage (%)
Display Process Equipment	66.29%
Semiconductor Process Equipment	20.63%
Intelligent Automation Equipment	2.02%
Others	11.06%
Total	100.00%

1.3 Products Currently Offered by GPM

- (1) FT-LCD / OLED / Flexible OLED Display Process Equipment:
 - A. Array Process Equipment
 - TEG Prober
 - Array Tester
 - Array Cleaner
 - Array Wet etching
 - B. Cell Process Equipment
 - Edge Grinding Machine
 - Cell Tester
 - Polarizer Attachment machine
 - In- process Cleaner
 - Thinned glass surface defect inspection equipment

- C. Module Process Equipment
 - Edge /Plasma Cleaner
 - Excimer UV Cleaner
 - D. Inspection Process Equipment
 - Panel Surface Inspection
 - Burr Checker System
 - E. Automation Equipment
 - G4.5 / G5 / G6 / G7.5 / G8.5/G10.5 Cassette Station
 - Loader / Unloader & Automation for Cell Area
 - Dense Packer / Unpacker C/V, Buffer etc. Automation for Production Line
- (2) Semiconductor Failure Analysis Testing Equipment :
- A. Picosecond Image for Circuit Analysis Equipment
- (3) Semiconductor Process Equipment
- A. Precision Machining and Precision Mold
 - (A) Trim / Form System
 - (B) Auto Molding System
 - (C) Trim / Form System
 - (D) IC Substrate Punch System
 - (E) Mold for Auto Sealing Machine
 - (G) Die Set /kit for Trim / Form System
 - (H) Fully Auto Panel Molding System
 - (I) FC Bump Coin Lamination Equipment
 - B. Precision Pick and Place
 - (A) Grain Pick / Place Machine
 - (B) IC Bonding Machine
 - (C) IC Die Multi-face Inspection and Sorting Machine
 - (D) Heat Sink Covering Machine
 - C. Laser
 - (A) Laser Marking Machine
 - D. Precision Grinding
 - (A) Substrate Grinder
 - (B) Strip Grinder
 - (C) Panel Grinder
 - E. Wet Chemical Process
 - (A) Batch Etcher
 - (B) Batch Stripper
 - (C) Batch Developer
 - (D) Batch Cleaner

- (4) Semiconductor Inspection Equipment
 - A. Wafer Surface Defect Inspection machine
 - B. White Light Interference Measurement System for Wafer 3D Topography and Size
- (5) Intelligent Manufacture Total Solutions and Equipment
 - A. Intelligent Logistics System
 - B. Process Automation Equipment
 - C. Solar Cell Automation Handling System
 - D. Lithium Iron Battery Core Seal Welding and Lamination Device
 - E. Intelligent Diagnosis and Preventive Maintenance System
 - F. Robot Handling and Machining System
 - G. Intelligent Factory Integration Service

1.4 New Product (Service) in Planning

The GPM Group are planning to develop the following new product (service):

R&D Item (Processing Technology)	Names of machine to be developed
	● Picosecond Imaging Circuit Analysis , PICA II
	● Emission Microscopy , EMMI
	● 12" Wafer 2D/3D Defect Inspection & Metrology
	● AI Defect Inspection System
	● High precision Grinding Machine for Fan-out packaging.
	● 3D on-line Processing system.
	● AGV with visual Simultaneous Localization and Mapping.
	● Automatic loading and unloading AGV for 300mm wafer cassette.
	● Warehouse Automated Guided Vehicle positioning System.
	● Dual Spindle Strip Grinding
	● IDMS II
	● Mobile Robot
	● Micro LED Die Transfer machine
	● High speed 6S Inspection Chip Sorter
	● Fiber-optic Communication Bonder
	● New IC marking Machine
	● IC Laser Cut Machine
	● Fully Auto IPM Motor Rotor Epoxy Molding System
	● FPC Micro Prober SYSTEM
● FC LID Attach System	
● RFID die bonder	

1.5 Industry Outlook

1. The status and future vision of the industry: The company is a manufacturer of automatic process and inspection equipment adopted in the electronics industry. In 2020, the FPD industry, , semiconductor industry, and intelligent automation industry will still be our main territory, the details are as follow:

(1) FPD equipment industry

According to DIGITIMES Research's prediction, the production capacity of large-size LCD capacity in Mainland China will account for more than 53.5% of global production capacity in 2020. For the most important 10.5/11 generation production line that has a significant influence on the supply side, there will be six production lines being launched into operation between 2020 and 2024 globally, five LCD production lines in Mainland China and one OLED production line in South Korea. However, due to the outbreak of COVID-19 in early 2020, the project has fallen behind schedule, the important foreign equipment personnel could not find their way into China leading to the delays in the installation and commissioning test and the postponement of the fulfillment of production capacity to one or two quarter later.

From the second half of 2019 to 2021, South Korean manufacturers have significantly reduced the production capacity of 7.5/8.5 generation LCD panels in South Korea, aiming at mitigating the impact created by the expansion of China companies and shifting the capacity to the OLED production. The average size of TV panels increases by about 0.7 to 1 inches per year, it is the main driving force for the demand for enlarged panel area, yet, the potential business opportunities of LCD TV panels may be slowly undermined by OLED technology.

The annual growth rate of the production capacity of large-size LCD was more than 9.4% both in 2018 and 2019, which results in a slump in the price of large-size LCD panels. The production capacity of the large-size LCD panel is expected to reach 279 million square meters in 2020 globally, with an annual increase of only 5.8%, and the annual growth rate of production capacity will gradually decrease between 2021 and 2024, that may solidify the development of LCD panel industry. The Korean companies have formulated the production cutback plan for LCD panels, which will help balance the global supply and demand of large-size LCD panels from 2020 to 2024.

However, as of the first quarter of 2020, the epidemic of the COVID-19 has depressed the global consumer market and deferred the 2020 Tokyo Olympics for one year. Furthermore, the virus struck Korean leading to a reduction in the panel production among the Korean companies, together with the lockdown and mandatory measures adopted in Mainland China, resulting in unstable upstream materials and components supply and logistics. On the other hand, Taiwan companies locate its front-end process of large-size panels locally, which means there will be a stable and sound supply chain of materials and key components could be relied on to help Taiwan companies secure the orders shifted from major brands for the sake of diversifying its supply chain.

It is estimated that, among the main categories of application of Taiwan companies, the TV panel will see the mildest decline (5.6%) in the first quarter of 2020, which is far greater than the decline of 12.4% in the first quarter of 2019. The reduction in the production of the Korean companies can be a driving force for the order shifting of major brands and balance the supply and demand of the LCD TV panels, and, as a consequence, gradually raise the price. In the meantime, the sudden epidemic in Mainland China may be a factor in strengthening the major brands' determination to consolidate the supply of panels. Indeed, the epidemic affected the production of panels in Mainland China and South Korea. In Taiwan, except for the back-end modules mainly located in Mainland China, the supply chain is quite sound and complete, which can be an advantage when experiencing the effect of order shifting.

Other applications include large vehicle panels, digital signages, industrial applications, medical applications, ATMs, arcade machines, point-of-sale checkout systems, etc. among which, the vehicle panel application are considered the most promising one, followed by the digital signages. It is expected that the gradual deployment in the large-size commercial display market can bring the advantage of the 8.5/11 generation production line into play.

Besides, although the development of Micro LED technology has begun in Taiwan, there are still several bottlenecks in the process need to be overcome. The manufacturers turn their attention to the existing equipment, attempt to develop Mini LED grade products by just adjusting certain process parameters. Until at least 2024, the future the Mini LED is going to have is considered a bright one, benefiting the applications in VR, TV, mobile phone, tablet, vehicle panel, display screen, etc...

(2) Semiconductor Equipment Industry

With the continued prosperity of semiconductor applications such as AI, IoT, 5G, high-speed (performance) computing, automobile electronics, and new-generation smartphones, DIGITIMES Research observed that the revenue of the wafer foundry industry in Taiwan was at record highs in the fourth quarter of 2019, with a slight growth during the past year. Ushering in 2020, the epidemic of COVID-19 is expected to drag down the revenue since the second quarter. If the epidemic can be controlled in the first half of 2020, the market may have a chance to recover from the recession in the middle of the third quarter, together with the launching of 5G and high-performance computing (HPC) products, the total revenue of wafer foundry industry is estimated to experience a record-breaking rising. However, although the epidemic in China has been controlled, as the number of the person infected continues to increase in Europe and the United States, the globalized development of the disease will be a big factor in restraining the growth momentum of the revenue of Taiwanese wafer foundry industry in 2020.

With the strong demand for AI, 5G, smartphones, high-performance computing, and automobile electronic products, the capacity utilization rate of the major semiconductor OEMs in Taiwan (TSMC, UMC, and VIS) has remained at a high level, stimulating the total revenue in the fourth quarter of 2019 to go up to \$12,000,000,000, with quarterly growth of 10.9%; and the outstanding performance of the revenue in the second half of 2019 also leads to a full-year revenue of \$40,360,000,000 better than the expectation of slight recession, with quarterly growth of 0.5%. (See the picture below)

In 2019, the annual revenue of major wafer foundries in Taiwan continued to hit a record high, better than the expectation. The total revenue reached \$40,360,000,000, with an annual growth of 0.5%, slightly better than the estimate of \$ 40,150,000,000 made by DIGITIMES Research (annual decrease of 0.1%). The revenue of TSMC in the fourth quarter of 2019 reached \$ 10,390,000,000, with the quarterly growth of 10.6%, better than the expectation; The revenue of UMC and VIS in the fourth quarter was also impressive. Although the epidemic in the first half of 2020, if the market is revitalized in the second half of the year, the annual growth of the revenue of wafer foundry industry in Taiwan will reach double digits. According to DIGITIMES Research's prediction, the annual revenue of TSMC will increase by 19% in 2020. The expansion of the 7-nanometer production line and 5-nanometer mass production are both the important factors in the high growth rate of the revenue of TSMC. In January 2020, TSMC estimates that its annual revenue growth in 2020 may be over 17%. However, since the resumption of the supply chain of the electronics industry in the first quarter and the terminal demand in the mainland market is affected, the mitigation of inventory clearance of customers may impact the revenue of the Taiwanese wafer industry in the second quarter.

In the meantime, the semiconductor equipment manufacturers in Taiwan are also paying much attention to the back-end packaging equipment. The leading manufacturers successively invested in the field of advanced packaging setting up the stage for the development of the industry in the next 3 to 5 years. Moreover, DIGITIMES Research observed that, in addition to the impact on the production capacity of IC manufacturing, packaging, and testing industry due to the logistics obstruction and manpower shortage, there may be a more powerful effect on the demand side. Because of the epidemic of the disease, terminal demand for mobile phones, desktop computers, etc. significantly weakened at the end of January 2020, and the resumption of downstream system factories was also delayed, which in turn weakened the dynamics of the telecommunications and computer chip market. The impact is expected more apparent in the second quarter. If the epidemic can be gradually controlled after the end of February and eradicated in the first half of 2020, the consumer market is expected to revive in the second half of the year, facilitating the resuscitation of IC manufacturing, packaging, and testing industry.

Because of the epidemic of the disease, the government of Mainland China implemented lockdown policy and deferred the resumption. Although the IC manufacturing industry is affected by the above-mentioned measures, yet, with the pre-deployed materials and manpower, the highly automated production lines are can still operate normally, the impact is relatively moderate. On the other hand, the IC packaging and testing industry with relatively higher labor demand is seeing a short-term labor gap due to deferred resumption and epidemic prevention measures. Compared with the IC manufacturing industry, the IC packaging and testing industry is facing a more serious

challenge of diminished production capacity, which is roughly at the level equal to the slack seasons. It is estimated that it still takes 1 to 2 months to return to the normal level. The degree of mitigation of the epidemic at the end of February may be used as an indicator when evaluating the aftermath and impact the supply side will experience.

No matter from the perspective of the size of the economy or the market of semiconductor, the impact on the economy of Mainland China, and, in turn, the global economy, should not be underestimated. Even though the impact on the supply side of the IC manufacturing, packaging and testing industry is relatively moderate and controllable, but the inventory clearance of customers will be slowed down due to the reduced market demand and production capacity of downstream system factory, weakening the dynamics of the chip market in the first quarter of 2020. The influence will be much more manifest in the second quarter.

However, the emerging demand for application to 5G and AI, which was expected to drive the growth of IC manufacturing, packaging and testing industry in 2020, still has the chance to stimulate market after the epidemic has been controlled, and to facilitate the recovery of the semiconductor industry to partly offset the impact of the disease.

According to the Semiconductor Equipment and Materials International (SEMI), the epidemic of COVID-19 will gradually affect the relevant industries in China and across the world. But the impact should be a short-term and temporary one, and, since the first quarter has long been a slack season, if the epidemic can be controlled by the middle of the year, the recovery in the second half will be quite predictable due to the deferred demand and 5G applications. It is expected the investment in the semiconductor equipment will see a growth of 5% in 2020.

According to SEMI, the semiconductor market will usher in a strong recovery in 2020, including the stabilized demand for high-end mobile phones; the supply of PC is limited due to the shortage of intel CPU, and the decline in demand is expected to continue until the middle of 2020; the global automotive market will recover from the recession in 2019 due to the revival of the automotive semiconductor market. It is expected the auto-related industries experience a notable resuscitation in 2020; the launching of 5G applications will not only boost the demand for AP, Modem, RF, PA, and PMIC, but facilitate the inventory digestion of the memory.

In addition, 5G, data centers, AI and the Internet of Things (IoT) will play important roles in the future development of the industry, while, in 2020, the epidemic of COVID-19 and the crossfire of regional trade conflicts will still be the factors in the development of the market as a whole.

Furthermore, SEMI indicates that the semiconductor market of Mainland China accounts for 35% of the global market, its sales of consumer electronic products such as mobile phone, PC, and TV also account for about a quarter of the sales worldwide. If the epidemic cannot be effectively controlled, there will be a significant impact on the operation of the electronics and semiconductor industry in the first quarter. According to the estimation, a decline of 20% in the sales in Mainland China may lead to a decline of 3 to 4% worldwide throughout the year.

However, the impact of the epidemic could be expected to be a short-term and temporary one. If the situation becomes better before the middle of the year, the recovery in the second half of the year will be quite predictable due to the deferred demand and 5G applications. It is expected the annual investment in semiconductor equipment will see a growth of 5%. The outbreak of SARS in 2003 could be a good example, the semiconductor market resuscitated in the second half of the year, leading to significant annual growth of 17%.

As for the equipment and materials market, the growth in the demand for 7nm and 5nm process will lead to a steady growth in the expense of the wafer and advanced logic process in 2020; the gradual recovery of the memory market is quite predictable in the year. The rise in the investment in NAND Flash will be faster than DRAM.

According to the SEMI's estimation, the recovery of the global semiconductor market will be more optimistic in 2020, the estimated growth rate is 7 to 8%, mainly coming from the stabilized inventory level of memory and overall price. The recovery of the advanced logic process and memory market and the investment of Mainland China will jointly stimulate the growth in the expense of equipment and materials market in 2020. (Source: SEMI 2020/03)

(3) Intelligent automation industry

Since Germany put forward the Industry 4.0, the related technologies have begun developing and evolving rapidly, including the development of industrial Internet of Things (IoT), Big Data analysis, robots, etc.. As if the popularization of the innovative intelligent factory and the new industry standard is just around the corner. The domestic manufacturers have launched various industrial robot products with the robotic arm combined with AGV, significantly expanding the application of the said technologies from the manufacturing industry to the service industry.

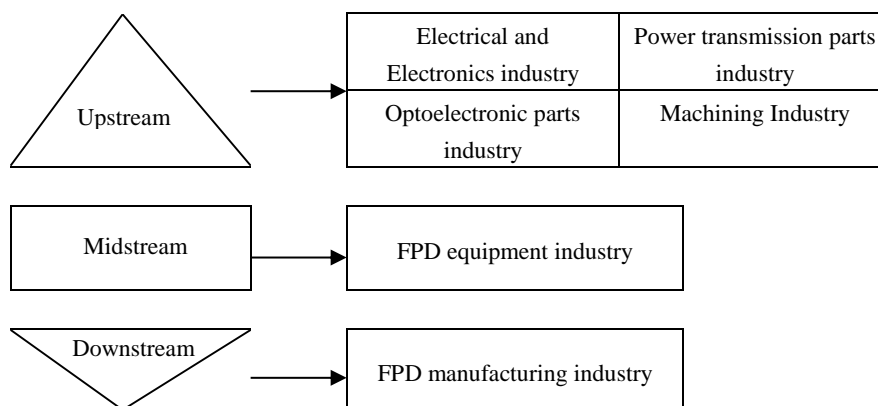
Especially in recent years, the growing tide of artificial intelligence (AI) has turned the Industry 4.0 into a new direction, the difference between "automation" and "intelligence" is distinguished. The artificial intelligence technologies based on algorithm analysis, such as "machine learning" and "deep learning", has become a new trend in the development of Industry 4.0. Thus, not only the automation and robot technology has become more precise, but also the manufacturing industry has entered a new era of "unmanned factories".

The intelligent machinery industry will play an important role in the prosperity of intelligent manufacturing in Taiwan. However, the industry is still in the aftermath of the trade war between China and the US and the epidemic of COVID-19. Yet, it is widely accepted that the influence must be short-term and temporary. In 2020, although the intelligent machinery industry may experience a decline at the beginning of the year, the recovery later in the year is quite predictable. According to the Machinery Association, there may be an opportunity for the export of the industry to grow by 5 to 10%, in which the development of intelligent machinery is considered an important factor. Recently, the cross-field cooperation between industry, academia, and the information and communication industry gives birth to the brand-new development strategy of setting up clear goals and attaining it in stages. (Source: DIGITIMES)

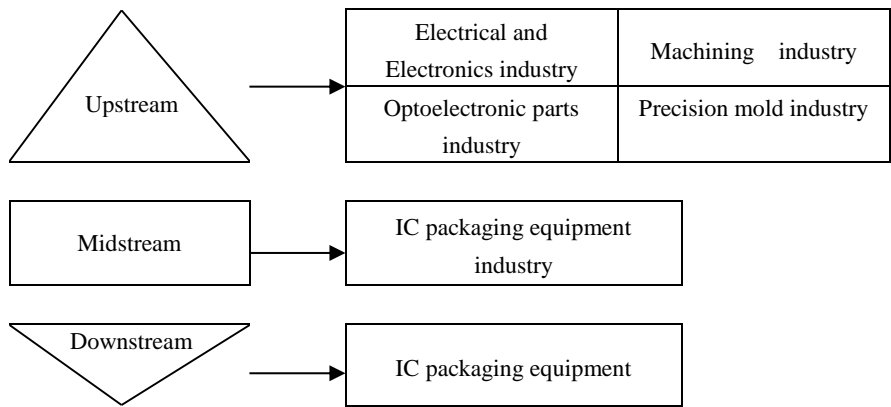
Driven by the pioneers of digital transformation, more and more manufacturing companies are willing to participate in the process. The platform ecology centered on the blockchain and artificial intelligence can facilitate the automation of the processes and the cross-industry collaboration will cut down the expenses for the companies. In order to improve the speed, agility, efficiency, and innovation, more and more manufacturing companies will carry out extensive reconstruction of its structure to center their process on data. The combination of augmented reality/virtual reality (AR/VR), smart applications, and collaborative robots will help the worker in a manufacturing plant to improve the production efficiency and working environment. (Source: IDC 2019/1)

2. The supply chain of upstream, midstream and downstream of the industry

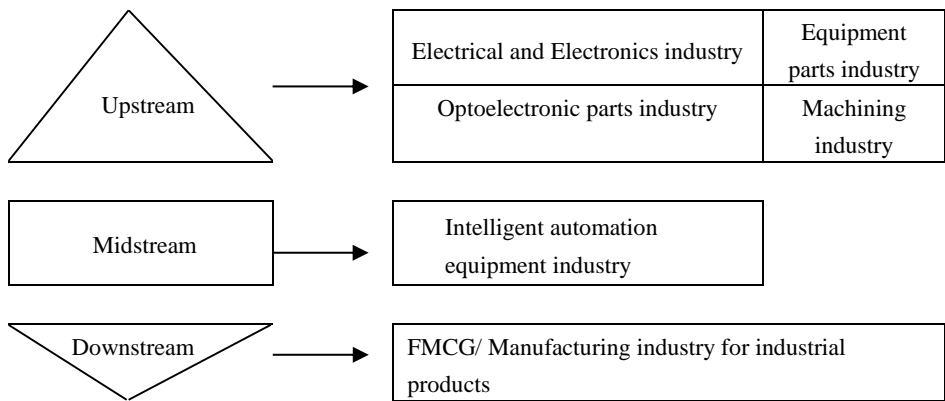
(1) FPD equipment industry



(2) Semiconductor IC packaging equipment industry



(3) Intelligent automation equipment industry



3. Product development trends and competition status

(1) FPD Equipment industry

In the future, the oversupply of large-size panels will become the norm. DIGITIMES estimates that, by 2021, there will be six 10.5/11 generation production lines located in Mainland China. In terms of the production capacity above G8, the global market of TV panel over 40 inches has been oversupplied. Without the corresponding estuary, the oversupply of large-size panels will become the norm.

With the epidemic of COVID-19 in the first quarter of 2020, the prospects of the global market have become a talk of the town. In addition, the virus struck Korea and China leading to a reduction in the panel production among the Korean companies and unstable upstream materials and components supply and logistics in Mainland China. On the other hand, Taiwanese companies locate their front-end process of panels locally, which means there will be a stable and sound supply chain of materials and key components could be relied on to help Taiwanese companies secure the orders when the effect of order-shifting gradually reach the climax.

The panels for smartphones turned their direction toward consumer electronic products such as AMOLED, digital cameras, and portable navigators. Because of the functional interchangeability, the mainstream size of the tablets enlarged to 9 inches while the sales volume continues to decrease. Industrial automation panel, vehicle panel, and IoT-related applications will become the mainstream application leading or the steady growth of small and medium-sized TFT LCDs.

On the demand side of equipment, the trends are described as below:

- A. Equipment demand is mainly for the large-size LTPS and OLED and small-size production equipment.
- B. Bulk equipment demand will mainly come from Mainland China.
- C. To be in line with the Taiwanese panel manufacturers' concept of producing high-quality and differentiated products, there will also be greater demand for local expansion and new equipment.

- D. The Chinese government actively implements the policy of producing the panel equipment locally and domestically.

As stated above, the important equipment demand will mostly come from the mainland market; meanwhile, there will also be greater challenges posed by Chinese local equipment manufacturers.

(2) Semiconductor Equipment Industry

During 2017 to 2022, although the annual growth of global smartphone sales will gradually slow down, the smartphones are still an important driving force in the growth of global output value of foundry industry due to the increase in the number of ICs installed on a single device and greater demand for advanced processes. Furthermore, there is a good chance that the market of 5G, IoT, AR/VR, automotive electronics, high-performance computers, etc. continues to grow during the next 5 years. DIGITIMES Research estimates, including the pure-play foundry industry and some integrated component factories engaging in the foundry business, the global output value of the foundry industry will be up to \$ 74,660,000,000, with compound annual growth rate (CAGR) of 6% during 2017 to 2022.

Currently, more and more IC manufacturers adopt innovative IC products using advanced fan-out packaging technology. The Integrated Fan-Out (InFo) developed by TSMC has also been used in Apple's A10 processor. Many leading companies, such as ASE and Powertech Technology, also introduce the Fan-out advanced packaging process for mass production.

The technology industry research agency, Yole Developpement, estimates that the output value of global FO market will grow from \$ 847,000,000 in 2017 to \$ 1,584,000,000 in 2019, and then to \$ 3,864,000,000 by 2024. The total compound annual growth rates of the global FO market between 2017 and 2019 and between 2019 and 2024 are 23% and 19% respectively.

The foregoing market information has indicated the trends toward advanced packaging, it is a good opportunity for the future prosperity of the equipment industry. This is also the direction the Company is currently taking.

In Taiwan, the semiconductor packaging companies mainly use the equipment acquired from foreign manufacturers. However, as the precision and performance of domestically produced equipment continue to be improved, the companies in Taiwan tend to cooperate with major manufacturers to develop necessary equipment. The technology gap with foreign manufacturers has been gradually narrowed in recent years.

5G will be the new driving force in the future. In the first half of 2019, for the smartphone market, there is no significant growth in demand and sales. However, in terms of technological trends, the 5G communication generation has already grabbed the attention of the chip and brand manufacturers worldwide. It is worth noting that, in terms of complexity, the design of the 5G generation is indubitable, which will, in turn, enhance the demand for system-in-package (SiP), gaining the importance of IC testing fields, such as wafer testing and finished product testing. However, due to the epidemic of COVID-19 in 2020, the production and delivery of 5G smartphones will be delayed for about half a year, the subsequent production will depend on the condition of the epidemic.

Automotive electronic applications continue to grow. In 2017, the value of global automotive electronic components (including LED modules) packaging market reached \$ 3,700,000,000, of which the outsourced assembly and testing (OSAT) market experienced a growth of approximately 30%. As the automotive electronic system market continues to grow, it is estimated that the value of the automotive electronic component packaging market will reach \$ 7,000,000,000 in 2023.

The trend of advanced packaging such as 3D/2.5D/Fan-out has become obvious, however, since each major manufacturer adopted different manufacturing processes, there is no single corresponding device on the market. Therefore, in order to strengthen the competitiveness, what the major manufacturers need is the equipment not only with flexibility but also developed based on its manufacturing process. This also a great opportunity for domestic equipment manufacturers.

(3) Intelligent automation equipment industry

With the evolvement of AI, the price dumping of IoT components, and the rapid development of big data analysis applications, the technology of smart factories has gradually matured. Machines, equipment, devices, and components are connected through the Internet of Things, the intelligentization of the production line is realized by concatenating the data and information and automatizing the manufacturing processes.

Affected by the trade war between the US and China, the machinery and equipment manufacturing industry in Taiwan experienced a large decline in the output value in 2019. After a series of negotiations, the United States and China entered into the preliminary agreement in January 2020. With the mitigation of the trade war and a certain part of the supply chain shifting out of China, the benefits of investing in the new machinery and equipment have become more obvious. It was expected that the output value of the machinery and equipment industry in Taiwan would be impressive in 2020, yet the outbreak of COVID-19 obviously weakened the growth in the output value. (Source: IEK)

The conflict between the U.S. and China plays an important role in the prosperity of the market. Some business owners believe that as a result of the conflict between the U.S. and China, the foreign manufacturing bases under construction and the enhanced demand will lead to the prosperity of manufacturing-related industries, such as machine tools. However, long-term planning and continuous observation are still the best strategies.

In addition to the machine tool manufacturers, the upstream component manufacturers and system integration companies are also optimistic about the prosperity created by smart manufacturing. The machine tool manufacturers believe that the business opportunity created by the shifting to smart manufacturing made by the manufacturers in Mainland China and the relocation to Vietnam and Southeast Asian due to the environmental factors will become quite obvious within this year at the earliest.

Critical component manufacturers point out that the manufacturing industry worldwide will enter the era of smart manufacturing. The enterprises are increasing their investment in smart factories. Besides machine equipment automation/intellectualization, the impact of the industrial Internet of Things and the cyber-physical system are both important issues. No matter industrial upgrading or transformation, in the process of establishing the smart manufacturing production lines, the manufacturers will find the demand for automation-related components such as the electronically controlled proportional valve, electronic flowmeter, solenoid valve assembly, etc. has become greater. The related manufacturers will also stand to benefit from the enhanced demand.

In addition, in response to the trend of smart manufacturing, the requirement for visualized real-time data will also become common. For smart manufacturing system integrators, the integration is no longer just about a single machine or production line, it is, through remote monitoring, to present the real-time operation information of all machines with different brands across the factory, and to attain the goal of efficient and intelligent management, such as equipment interoperability standardization, information transparency, and digitization.

Currently, smart manufacturing is almost an inevitable transformation for manufacturers all over the world. The temporary delay or postponement due to the uncertainties of the environment is only the adjustments in the schedule. It is rarely a case of permanent suspension. The affected and postponed projects are resumed or even speeded up once the environment becomes stable. For the relevant manufacturers in the supply chain, this is a golden business opportunity.

4. For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, R&D expenditures:

Item \ Year	2019	As of March 31, 2020
R&D expenses to Operating income	307,787	79,407
R&D expense to Operating income ratio	7.27%	12.43%

5. For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, techniques and products that have been developed successfully for the Group

R&D Items (Processing Technology)	Names of machine developed
	● Picosecond Imaging Circuit Analysis , PICA I
	● G10.5 Wet Etching
	● Wafer 2D AOI
	● Parts/Material AGV
	● IC Substrate Grinding MC
	● Strip Disc Grinding MC
	● Edge Grinding Machine
	● IDMS I
	● Flip Chip Bonder
	● DAF Die Bonder
	● 3D IC/Fan out bonder
	● High Speed AOI System
	● Fully Auto Panel Molding System
	● FC Bump Coin Lamination
	● Semi Auto IPM Motor Molding Machine
● IPM Motor Rotor Epoxy Mold Chase	
● Reflow Auto Load/Unload Machine	

1.6. Long and short-term business development plans

1.6.1 Short-term plans

- (1) Cooperating with foreign manufacturers in terms of technical development, paying attention to and investing in the FPD next-generation high value-added equipment, establishing and diversifying sustainable operations, and setting a stage for the company continues to innovate and grow, and reasonably identifying and grabbing the business opportunities with gross profit.
- (2) Continuing to expand the achievements of intelligent automation in 2019 and concentrating the resources on providing intelligent automation integration solutions for representative customers in the industry and helping them to achieve the goals of smart manufacturing.
- (3) Continuing to seek opportunities to cooperate with world-class companies and building a long-term partnership of automation equipment. Ensuring a stable source of business for future development.
- (4) Fulfilling the requirements of partners and customers through technology introduction/cooperation, firmly engaging in the development of front-end advanced inspection technology of high value-added semiconductor and back-end packaging process inspection and grinding process equipment.
- (5) Improving the performance of the products in the IC Substrate field to deepen the product line and expand the customer base.

1.6.2 Long-term plans

- (1) Following a development strategy for innovation, transformation, diversification, and sustainable development.
- (2) Business aspect
 - Cultivating the business in the monitor industry, semiconductor industry, and intelligent automation industry.
 - Promoting related products in foreign markets and expanding the business.
 - Magnifying the business opportunities created by the returning of Taiwanese companies and the decentralized production of major international manufacturers.
 - Cultivating the business in the equipment and components after-sales service market, pursuing the mutual benefits with customers.
- (3) Product aspect
 - Developing and innovating the core technology (equipment and process).
 - Introducing the core technology in the development of the integration application of transdisciplinary products.
- (4) Following an international strategy of cultivating the diversification of talents.

2. Market, Production, and Sales outlook

2.1 Market Analysis

1. The Company main product (service) sales (provision) area and market shares

The Company's products have presence mostly in Asia. During the last two year the sales percentage of the GPM export sales:

Unit: NT\$ thousands

Items \ Year	2018		2019	
	Amount	Ratio (%)	Amount	Ratio (%)
Domestic Net Sales	2,063,982	42.35%	1,359,275	32.09%
Net Sales from Export	2,809,171	57.65%	2,876,740	67.91%
Total	4,873,153	100.00%	4,236,015	100.00%
Market Share	Not applicable		Not applicable	

2. Market Development

In line with the business strategy, GPM will continue strengthening core technology and widening the applications in the Display, Semiconductor, IC substrate and Intelligent automation industry.

- (1) Display Industry

It is estimated that the CAGR of sales of global large-size LCD will be -0.8% during 2020 to 2024, mainly due to the market saturation of TV applications, monitor+AIO PC applications, NB and 9-inch tablet applications. 2020 Tokyo Olympics was once considered a stimulation to the global sales of LCD TV panel; however, the LCD TV market is affected by the development of technologies and mass production and sales of OLED TV, etc... As a result, the global sales of LCD panel for TV are expected to gradually decline after 2021.

The main driving force for tablet applications is the enlarged screen of the products, yet, there still are uncertainties surrounding the LCD panel market affected by AMOLED technology.

Among other applications, such as large vehicle panels, digital signages, industrial applications, medical applications, ATMs, arcade machines, point-of-sale checkout systems, the vehicle panel applications are considered the most promising one, followed by the digital signages.

The Company has successfully introduced several main products to major customers in Mainland China and been active in the research, development, and promotion of G8.5/G10.5 wet etching equipment. In terms of the display equipment, the solid performance for the year is quite predictable.

(2) Semiconductor Industry

Taking the overall market condition into consideration, 5G communication applications, mobile devices, automotive electronics, high-performance computing and Internet of Things, and artificial intelligence will still be the main direction of the development within the next three years. Despite the maturity of the advanced packaging technology (such as 3D/2.5D IC/Fan-out), each major manufacturer adopted different manufacturing processes, there is no single corresponding device on the market. Therefore, in order to strengthen the competitiveness, what the major manufacturers need is the equipment not only with flexibility but also developed based on its manufacturing process. This also a great opportunity for domestic equipment manufacturers.

The indefatigable cultivation of the business of semiconductor packaging equipment rewards the Company with several product lines that are recognized by the major customers in the market. Adjacency to customers, the solid technical foundation established during these years, and flexibility in fulfilling the requirements of customers allow the Company to consistently provide satisfying services. In terms of advanced packaging technology, we have actively invested in the development of a number of forward-looking technical equipment and preparation for the future innovative process equipment. Currently, there are already several solutions being introduced to internationally renowned manufacturers. Given the enhanced market demand, we are realistically optimistic about the outlook in 2020.

However, according to the report of Nikkei news, not every analyst feel optimistic about the semiconductor market between 2020 and 2021. Due to the escalated trade war and the epidemic of COVID-19, the current repletion of orders might be transitory. The foremost driving force for the growth of the semiconductor market is the investment in 5G wireless communication equipment and mobile phones, including the enterprise investment in the base stations, other related equipment, and new components and the effort to increase the production capacity of mobile phone. Japanese component factories also experienced a growth in the demand for 5G-related equipment. Although the trade war may temporarily depress the demand for semiconductors, it will also strengthen the determination of Mainland China to develop self-made semiconductors, which will, in turn, stimulate the semiconductor equipment market.

The prospect of 5G mobile phones drives the capacity utilization rate of 7nm advanced process of TSMC to soar to approximately 100%. In the fourth quarter, the TDDI chips, OLED driver IC, and under-screen fingerprint recognition chips, etc. necessary for the full-screen design functions indispensable to the new generation mobile phones are put into the production lines to share the production capacity, the capacity utilization rate of 7nm process of TSMC for 5G-related chip orders is an indicator showing that the trends have spread to the capacity of other mature processes, which will, in turn, increase the capacity utilization rate in the 8-inch and 12-inch fabs affiliated to the foundries in Mainland China and Taiwan. The sales boom gradually returns a buyer's market in the first three quarters of 2019 back to a global seller's market of wafer foundry in 2020. It is not hard to imagine there are extremely strong demands around the corner.

(3) Intelligent automation equipment industry

systems/intelligent diagnosis, preventive and maintenance systems (IDMS)/robot processing systems, etc... The advantage of the company is the capability of integrating the systems. The achievements regarding the equipment construction in semiconductor/panel/solar/PCB industries mainly made with the help of the hard power of accumulated experience in production and manufacturing, and the soft power of system integration, by which the Company had earned an excellent international reputation and a number of awards. In recent years, in response to the development trends of Industry 4.0 and smart machinery, we have committed ourselves to providing smart manufacturing solutions for customers to accelerate the development of smart

manufacturing solutions.

3. Niches in competition, Favorable and Unfavorable Factors to Long-term Development and Countermeasures:

(1) Favorable factors

In terms of display, through technology transfer of Japan's high value-added prober and wet process etching equipment of the array segment, GPM has successfully developed main process products in Array and Cell segments and applied them to key accounts. This have strengthened the health of GPM's operations in the display field.

In 2019, the global electronics market is dominated by smart handheld devices, IoT, 5G, memory, AI, automotive electronics, and virtual reality and augmented reality. The future growth potential of automotive semiconductors and memory markets is sizable; in addition, 5G and AI applications are gradually growing. Due to demand for new equipment in these markets, as advanced packaging, such as 3D/2.5D IC/Fan-out and the like, has become a clear trend, there is no single standardized equipment because of different processing methods used by front runners in the market. Thus, each leading brand should have the agility to develop equipment that matches the processing timeline to reinforce its competitiveness. GPM has the advantages of maintaining close contact with customers, having years of strong technical backing, and being flexible to meet the customers' needs. With support from the government and domestic leading brands, this has become a good basis for GPM to get into the market.

The intelligent automation market is seeing explosive demand. GPM is entrusted by many leading enterprises in different fields to form large-scale alliances. The future development is promising.

A. Research and development

GPM has devoted itself to innovation and research and development of diversified products, cooperating with research and academic institutes to develop advanced process equipment.

GPM has a fine reputation for its research and development capacity.

With comprehensive core technologies and integrative applications, GPM has completed several technology cooperation projects with international leading companies in recent years.

By importing world-class technology, GPM has achieved fruitful results. Recently, GPM has signed a technology licensing and mutual development contract with IBM to introduce an analytical and testing system that can be applied to advanced semiconductors. This can further help GPM reach out to the international market and transform itself.

B. Sound quality system

GPM has a sound quality system containing quality (Q), delivery (D), technology (T), cost (C), and service (S) to provide customers total solutions and form alliances with world-class customers. So far, GPM has made great progress in the company strategy, "Strategic/Cross-Field Cooperation, Advancement with Alliance".

C. Strong backup systems

GPM has a good credit history. With many years of business dealings with suppliers, good partnership has been formed. This is crucial to the capacity expansion and stable supply of raw materials.

(2) Unfavorable Factors and Countermeasures

A. With the emergence and expansion of China's panel industry and the China government's initiative of using equipment manufactured domestically, GPM is facing strong competition from local equipment manufacturers. China's strong support for its semiconductor industry is accelerating the development of the local equipment industry. local equipment manufacturers compete for the market at low prices by investing in the research and development of new

products and industrial applications, including memory. In future, this will turn out to be a competing relationship.

Countermeasures:

- (A) Continue strengthening product technology, increase patent applications, and import advanced foreign technology to upgrade the products and get rid of price competition.
 - (B) Allocate more resource in China's operations to level up the design and manufacturing capability of subsidiaries in China and to deepen their competitiveness. Localize equipment development partially, integrate local resources to control costs, and strengthen local services.
 - (C) Build alliances with equipment manufacturers in China to maintain existing business opportunities and provide high value-added products for customers in China.
 - (D) Getting close to customers with quick response is the key factor in cutting into the new process development. Capitalizing on this advantage, GPM is able to continuously innovate and grow with customers. Under the constraints on effective resources and rapid market changes, GPM should be prudent in choosing capital and human resources for mature products and new R&D equipment.
 - (E) Including memory, 5G, and MicroLED, based on core technology to expand supply in line with the industry trends.
- B. FPD industry may not have a long and lasting development opportunity.

Countermeasures:

- (A) Tap into to the high value-added front-end cleaning, wet etching and testing equipment of the FPD industry.
- (B) Take advantage of the opportunity for FPD customers' equipment modification and expand after-market value-added services.
- (C) Expand the foothold in the semiconductor and intelligent manufacturing industries and set up operations in Southeast Asia.
- (D) Make the continuous effort to build strategic alliances, technology transfer corporation, and cross-field integration.

2.2 Main usage and Production Process of the Primary Products

1. Main usage

The Company is specialized in design, manufacturing and sales of equipment in FPD, semiconductor, intelligent automatic and biomedical.

2. The process of the Company's production and manufacturing are as follows:

All the Company's new product R&D shall follow the strict "C process design development control procedure" to control the R&D projects. C process includes "C0 Market Assessment", "C1 technique and product planning", "C2 Design Phase", "C3 Manufacturing and Assembly Phase", "C4 Testing and Validating Phase" and "C5 Result Confirmation Phase"

Development results are controlled by "S process", including "S1 Purchased Material Inspection", "Machine Component Module Assembly", "S4 Electricity Control and Whole Machine Control", "S4 Cold Run Test" and "S5 Hot Run Test".

2.3 State of Supply of Main Materials

The main material and source of the semiconductor equipment and TFT LCD equipment

produced and manufactured by the Company are as follows:

Mechanical Component

(1) Functional Machine Component

The mechanical designers draw the technical drawings based on specifications and engineering department produce or outsource to contractor to produce. The main materials includes metal like steel, iron and aluminum.

(2) Standard Mechanical Parts

Other general parts such as bearing, servo motor, drive belt, spring, stamping die, guide rod and buffer are purchased through trader or from domestic market based on the decision and selection of mechanical designers.

(3) Software such as Computer and Human Machine Interface

Industrial and human machine interface are acquired through trader or from domestic market based on the decision and selection of electronic controller.

(4) Various signal transmitting and control components

Components such as sensors, solenoid valve, server controller and touch switch are acquired through trader or from domestic market based on the decision and selection of electronic controller.

(5) Electric and transmitting components

Components such as cylinder, illuminating lamp, transformer and power supply are acquired through trader or from domestic market based on the decision and selection of electronic controller.

2.4 Key Supplies & Customers

2.4.1. Key Suppliers

Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years: None.

Unit: NT\$ thousands / %

2018				2019			
Supplier	Procurement Amount	As % of 2016 Total Net Purchase	Relation	Supplier	Procurement Amount	As % of 2017 Total Net Purchase	Relation
Others	2,703,030	100.00%	—	Others	2,223,919	100.00%	—
Total Net Procurement	2,703,030	100.00%		Total Net Procurement	2,223,919	100.00%	

2.4.2. Key Customers

Names of customers accounting for more than 10% of the total sales in any of the previous two years:

Unit: NT\$ thousands / %

2018				2019			
Customer	Net Revenue	As % of 2017 Total Net Revenue	Relation	Customer	Net Revenue	As % of 2018 Total Net Revenue	Relation
Customer B	1,297,975	26.64%	—	Customer J	1,017,072	24.01%	—
Customer F	987,373	20.26%	—	Customer B	528,482	12.48%	—
				Customer F	436,526	10.31%	—
							—
Others	2,587,805			Others	2,253,935		
Total Net Revenue	4,873,153			Total Net Revenue	4,236,015		

2.5 Production Volume and Value in the Past Two Years

Unit: pieces / NT\$ thousands

Year Output Major Products (or by department)	2018			2019		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Display Process Equipment	Not applicable	330	3,204,906	Not applicable	201	2,388,117
Semiconductor Process Equipment		2,431	775,177		1,816	478,169
Intelligent Automation Equipment		14	25,467		260	111,176
Others		10	711,233		29,338	821,071
Total		2,785	4,716,783		31,615	3,798,534

2.6 Sales Volume and Value in the Past Two Years

Unit: pieces / NT\$ thousands

Year Shipments & Sales Major Products (or by departments)	2018				2018			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Display Process Equipment	127	1,247,070	127	2,254,604	34	450,900	88	2,357,268
Semiconductor Process Equipment	336	572,184	594	373,625	200	594,114	623	279,926
Intelligent Automation Equipment	3	17,4155	1	7,084	1	1,920	77	83,776
Display Process Equipment	1	227,313	3	173,858	1	312,341	3	155,770
Total	467	2,063,982	725	2,809,171	236	1,359,275	791	2,876,740

3. Human Capital

Year		2018	2019	As of March 31, 2020
Number of Employees	Indirect Labor	326	351	347
	Direct Labor	538	465	466
	Total	864	816	813
Average Age		36.97	38.89	39.03
Average Years of Service		7.45	8.23	8.38
Education (%)	Ph.D.	0.12%	0.25%	0.24%
	Master's	20.72%	20.83%	21.03%
	Bachelor's	62.38%	62.62%	62.39%
	High School	14.93%	13.36%	13.40%
	Others	1.85%	2.94%	2.94%

4. Expenditure of environmental protection

For the most recent fiscal year and during the current fiscal year up to the date of publication of

the annual report, the loss (including compensations and penalties due to the violation of environmental protection laws and regulations discovered through the environmental protection audits. The date and the serial number of the punishment, the title and content of the violated provision, and the punishment shall be specified) and the estimated amounts that occurred or may occur in the future shall be disclosed. If it cannot be reasonably estimated, the fact shall be affirmed.

The Company actively devoted itself into environmental pollution prevention, totaling NT\$637 thousand. On an annual basis, a large amount of budget has been spend in improvement of pollution prevention equipment. In terms of effect on environmental climate, more efforts have been put on lowering the emission of greenhouse gas and enhancing the efficiency of energy usage. On top of abiding by domestic regulation, the Company also strives to comply with RoHS related rules and international covenant. In addition to business growth, environmental protection and work security is also its concern.

All the environmental protection affairs are in accordance with laws and regulations, there is no loss or penalty (including compensation) caused by environmental pollution.

5.Labor relations

5.1 Employee benefit measure, on-the-job training, training, retirement system, negotiation between employer and employees and other employee rights

5.1.1 Employee benefit measures

- (1) Competitive level of remuneration
- (2) Except for monthly wages, holiday bonuses for Mid-Autumn Festival and Dragon Boat Festival are provided as well.
- (3) To award outstanding performances for the employees, the Company gives seasonal bonuses, year-end bonuses, and employee remuneration according to the percentage of goals achieved, company profitability and personal performance of employees.
- (4) To boost new ideas among employees, the Company provides innovation research bonus, improvement proposal bonus, special performance team bonus, and special talent bonus to boost employee morale and team work.
- (5) To award the employee's self-improvement, the Company promotes measures such as gives out English and Japanese language certification bonuses, excellent internal educational trainers, and point systems for training courses.
- (6) Three days of paid sick leave per year.
- (7) Allowance for babysitting and education expenses for the third child of the employees.
- (8) Subsidy for parking fees.
- (9) Subsidy for on-the-job education and training.
- (10) Free health checkup is provided for once every year.
- (11) Cash gift for weddings, funerals, births, festivals and new years, and birthdays, as well as relief payment for hospitalization.
- (12) Employees' cafeteria is found in all factories, and meal subsidies are provided to employees.
- (13) Cultural and recreational events are held sporadically.
- (14) Happy Family Day event is held annually.
- (15) Stress-relieving working environment and activities.

(16) Impeccable performance management system.

Those department heads of all levels in the Company launch development programs in an attempt to accomplish the targets set for the entire Company, departments and individuals. On a semiannual basis, they sponsor programs for the entire staff for evaluation of performance with efforts for instructions and feedbacks. The Human Resources Department provides training programs which help all department heads better understand the importance of internalized evaluation of performance. Also through the programs, the department heads would be instructed and guided into better evaluation of performance and the interview process. Through such efforts as a whole, the entire staff of the Company would double their performance and be provided with sound career planning. Meanwhile, a sound mechanism to assure rational rewarding and punishment has been established.

The result of performance evaluation is basis for incentive bonuses, raises, bonuses, promotions, human resources cultivation and development programs.

(17) Shuttle bus on the premises.

(18) Free afternoon tea.

(19) Fitness centers in each factory.

(20) Welfare measures provided by employee welfare committee:

- We offer and scholarship and fellowships to employees' children from elementary school to graduate school
- Through efforts of Fringe Benefit Committee, we offer employees attractive discounts from contracted suppliers
- We grant gift money in cash to employees on the occasions of marriage, funeral, childbirth, certain national holidays and birthdays (PayEasy points)
- Club activities
- Cultural and recreational activities sporadically (movies, Christmas parties, festival activities)
- Travel activities.

5.1.2 Training

- (1) The Group believes that every employee is the human asset of the company, to whom the training provided can help achieve the full potential. We provide sufficient resources to help the employees to recognize themselves, and in turn to increase the value and improve the core competitiveness of the Company while attaining the development of the businesses and growth of the employees to yield a win-win situation.
- (2) The Group has formulated the "Education and Training Quality Manual" to give guidelines for the employees. The Company provides education and training subsidies every year to enrich the knowledge and improve the skills of the personnel in the organization and to conserve human resources to achieve the target of organizational performance and enhance the Company's competitiveness. The content is described as below:
 - A. Education and training system: Gallant has established a comprehensive training and development system, formulated clear education and training courses, and arranging the program based on the position and title, so as to conserve human resources, achieve the annual targets and implement established projects.
 - (a) Training courses provided based on the position: we have formulated the classified learning maps based on the level and rank of the supervisors so that the management knowledge training can be provided accordingly. The learning maps designed for management trainees, supervisors, middle managers, and top executives are adopted to ensure all members of management possess sufficient management knowledge and skills.
 - (b) Professional training courses: we have formulated the classified learning maps based on the required skills and technics, such as RD and design training map, customer service function training map, etc. to ensure all employees possess sufficient

knowledge and skills.

- (c) New employee orientation courses: to provide the Company's profile, development history, management regulations, and concepts of occupational safety/hygiene management system.
- (d) Internal lecturer training courses: The administrative unit organizes the internal lecturer training courses according to actual needs so that the staff members with expertise and enthusiasm for teaching can be equipped with teaching skills.
- (e) Self-inspired training courses: aesthetic, art, medical, health, literature, and other Spiritual enrichment courses.

B. Statistics and expenses related to the employee education and training of the Group in 2019:

Education and training	Internal training	External training	Total
Batches	297	199	496
Number of trainees	5,641	430	6,071
Hours	12,583.5	4,266.5	16,850
Expenses	\$1,324,590	\$1,063,849	2,388,439

5.1.3 Retirement Policy

(1) The Company provides Labor Insurance, National Health Insurance, group insurance, and group overseas business travel insurance in response to the demands from our colleagues when visiting hospitals while on business trips overseas. The Company aims to provide full range of insurances for the employees.

(2) Retirement systems and its status of implementation: The retirement systems of the Company and its subsidiaries are operated pursuant to relevant laws and regulations of their respective countries they are located.

A. Companies within the R.O.C.: The Labor Standards Act has stipulated labor retirement plans. It is mandatory for the employer to appropriate 2% or more as pension reserve to the designated account of The Supervisory Committee of Workers' Retirement Fund, and Labor Pension Act went into full effect on July 1, 2005. The regulations are as follow:

- (A) Labor Pension Act are applied to all employees who started their employment on or after July 1, 2005.
- (B) For employees who started their employment before July 1, 2005, they may make their choice from the pension systems in either Labor Pension Act or Labor Standards Act within five year beginning from July 1, 2005. If employees do not make any choices regarding the pension system, after the window is closed, their pension will continue to be mandated by Labor Standards Act.
- (C) Employees who is under any one of the following conditions may apply for voluntary retirement:
 - Where the employee attains the age of fifty-five and has worked for fifteen years.
 - Where the employee has worked for more than twenty-five years.
 - Where the employee attains the age of sixty and has worked for ten years.
- (D) Standard for paying pension:
 - Based on the employee's year of service rendered, two bases are given for each full year of service rendered. But for the rest of the years over 15 years, one base is given for each full year of service rendered. The total number of bases shall be no more than

45. The length of service is calculated as half year when it is less than six months and as one year when it is more than six months.

- Pursuant to Article 54, Paragraph 1, Subparagraph 2, when the reason for workers who are forced to retire is due to unable to perform his/her duties due to mental handicap or physical disability caused by his/her job duties, 20% more of the pension stipulated in the preceding subparagraph will be given.

B. Companies within China: The endowment insurance for employees after retirement are paid by the Company pursuant to local regulations.

(A) Based on the operation methods of local social insurance, the social insurance include medical, childbirth, endowment, occupational sickness, and unemployment. After the company has finished the application of adding member of social insurance, the company then begins to fulfill its duty on paying social insurance. The endowment insurance fee is appropriated according to the bases of the payment; the ratio of appropriation is mandated by local regulations.

(B) When the employee reaches mandatory retirement age and the limit of years of payment, they are entitled to receive the pensions according to local regulations. The general components of pensions are: basic pension + pension in the employee's personal account.

5.1.4 Negotiation between employer and employees and other employee rights:

- (1) The Company puts a lot of efforts in labor-management relationship and adheres to Labor Law and related regulations. For the past years, the Company has built harmonized labor-management relationship. There is no dispute between the labor and the management.
- (2) The Company values the rights and future developments of our employees, and therefore we have established an Employee Welfare Committee to offer them with various fringe benefits. The Company has established "The Handbook of Educational Training Quality" and encourage employees to participate in various training. The Company also sets up pension system in accordance with law, build communicating channel between labor and management and disclose welfare measures, learning and development, employees communicating and balanced life in the Company's website.

5.1.5 Commitment to Social Responsibility

- (1) The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees. The Company provides labor insurance, National Health Insurance (NHI), life insurance, accident insurance, disease and cancer insurance and set up pension fund.
- (2) Labor-Management Relationship and benign communicating channel
The employees and corporate representative of GPM have mutually participation in discussing on various issues in order to maintain a benign communicating mechanism. The labor-management conference are convened regularly. The employees are able to make proposal to the management team so as to facilitate their understand employee's mind. Also, the Company has an effective and rapid channel to promote new and rapid promotion of the Company's policy and message. The question and suggestion raised by the employees will be track and feedback.
 - We have set up the "General Manager Office's Mailbox" and have assigned special personnel to assemble and respond to the voices from employees.
 - On a quarterly basis, we sponsor the "Employees' Conference" through which employees are given the chance and encouraged to speak up their opinions which are taken as a precious reference for the Company for better performance.

- On a quarterly basis, we sponsor the “labor-management conference” as another good bridge to harmonize the labor-capital relationship. The labor-management conference convened on a regular basis is very conducive to the management to hear firsthand opinions from employees.
 - For each and every factory region, we have assigned staff members to specifically take charge of labor relationships to render help to employees and hear the firsthand voices from them on a face-to-face basis.
 - We sponsor “employee symposiums” from time to time on a nonscheduled basis. The General Manager participates in that event in person to listen to what the employees have in mind.
 - On a regular basis, we conduct “Employee Satisfaction Surveys” which proves to be another handy channel for the Company’s management to hear from all employees.
- (3) When there is any significant changes in operations that may have an impact on the employees' rights, the Company uses formal communicating channel such as employee symposium or labor-management conference to negotiate with employees in a hope to provide the best working environment for all the employees.
- (4) For the safety of production environment and personnel, the Company set up designated HSE department and personnel in charge of HSE affairs. In terms of working environment, the Company continues to examine the operating environment biannually so as to evaluate personnel exposure and improve the working environment accordingly.
- (5) The Company has created benign environment for employees' careers and established career development and training sessions.
- (6) Awards in 2019
- Outstanding Performance in the First Group of Green Area Management Evaluation of Taichung City
 - GPM Ranked Top 11 Little Giants of CommonWealth Magazine 2019 Corporate Citizen Awards.
 - Being granted by the Taichung City Government as a 3-star enterprise in the 2019 Happy Workplace Competition - "The Enterprises Enrich the City, the Labor Make the Business Prosperous" (Taichung Factory)
 - Won the Diamond Quality Award of "2019 e-Touch Green Decoration and Designing Award"
 -

5.2 For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, loss from labor-management dispute and disclosure of possible loss amount and mitigation efforts (including the violation of the Labor Standards Act discovered through the labor inspections. The date and the serial number of the punishment, the title and content of the violated provision, and the punishment shall be specified) and the estimated amounts that occurred or may occur in the future. If it cannot be reasonably estimated, the fact shall be affirmed: None.

6. Material Contracts

For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, the Company's important contracts that are still valid and will become due recently:

Nature of Contract	Contracting Parties	Contract Start/End Date	Main Content	Restrictive Provisions
Technology Transfer Contract	MICRONICS JAPANCO., LTD.	From March 12, 2015	Transfer of Technology	Data related to Transfer of Technology Contract shall not be re-authorized or transferred to third party.
Technology Cooperation Contract	Sumitomo Precision Products CO.,LTD.	Ten years, Starting from September 9, 2016	Technical Cooperation	If no termination request being proposed upon due, the contract will be renewed.
Technology Licensing and Mutual Development Agreement	International Business Machines Corporation.	Starting from November 3, 2016	Technology Licensing and Mutual Development	If no significant violation, the contract remains valid indefinitely.
Lease Agreement	Central Taiwan Science Park Bureau	January 1, 2007 to December 31, 2024	Factory Lease Agreement with Central Taiwan Science Park	None
Lease Agreement	Hsinchu Science Park Bureau	January 1, 2007 to July 31, 2036	Factory Lease Agreement with Hsinchu Science Park	None
Long-term Borrowing	CTBC Bank Co., Ltd.	September 27, 2019 to September 27, 2021	Collateral loan of Factory in Central Taiwan Science Park	Note
Long-term Borrowing	Cathay United Bank	July 31, 2008 to July 31, 2023	Collateral loan of Factory in Hsinchu Taiwan Science Park	None
Note: (1) current ratio: Higher than (including) 120% (2) Financial Debt ration: No higher than 60% (3) Tangible Net Value: No less than NT\$ 2.2 billion				

VI. Financial Information

1. Condensed Balance Sheets and Condensed Statements of Comprehensive income for recent five years

1.1 International Financial Reporting Standard.

1.1.1 Consolidated Condensed Balance Sheets - GPM & Subsidiaries

Unit : NT\$ thousand

Year		2015	2016	2017	2018	2019
Item						
Current assets		3,393,811	3,891,570	5,272,765	5,254,391	5,304,587
Property, plant and equipment		511,080	498,147	478,669	624,659	588,628
Intangible assets		18,453	39,083	122,286	96,768	25,692
Other assets		512,210	469,667	376,494	248,888	534,953
Total assets		4,435,554	4,898,467	6,250,214	6,224,706	6,453,860
Current liabilities	Before distribution	1,380,172	1,890,698	3,208,291	3,164,925	2,807,895
	After distribution	1,512,280	2,055,834	3,505,537	3,365,891	(Note)
Non-current liabilities		460,884	440,046	434,540	519,074	825,529
Total liabilities	Before distribution	1,841,056	2,330,744	3,642,831	3,683,999	3,633,424
	After distribution	1,973,164	2,495,880	3,940,077	3,884,965	(Note)
Equity attributable to owners of the parent		2,347,723	2,315,464	2,328,515	2,218,042	2,386,653
Share capital		1,731,361	1,651,361	1,651,361	1,651,361	1,651,361
Capital surplus	Before distribution	373,289	275,976	242,949	186,765	199,091
	After distribution	298,978	242,949	176,894	186,765	(Note)
Retained earnings	Before distribution	214,559	354,666	479,387	442,995	632,606
	After distribution	156,762	222,557	248,196	242,029	(Note)
Other equity		63,666	33,461	(45,182)	(63,079)	(96,405)
Treasury shares		(35,152)	—	—	—	—
Non-controlling interests		246,775	252,259	278,868	322,665	433,783
Total equity	Before distribution	2,567,723	2,607,383	2,540,707	2,860,531	2,820,436
	After distribution	2,402,587	2,310,137	2,339,741	2,645,854	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

**1.1.2 Consolidated Condensed Statements of Comprehensive Income
-GPM & Subsidiaries**

Unit : NT\$ thousand

Item \ Year	2015	2016	2017	2018	2019
Operating revenue	3,647,013	3,666,700	4,839,887	4,873,153	4,236,015
Gross profit	931,588	1,088,610	1,312,350	1,286,332	1,230,621
Operating income	294,698	307,032	465,799	433,227	359,126
Non-operating income and expenses	10,708	75,890	(127,486)	58,846	1,123
Income before income tax	305,406	382,922	338,313	492,073	360,249
Net profit(Loss)from continuing operations	235,887	299,059	230,681	406,267	289,906
Net profit(Loss)from close operations	—	—	----	----	----
Net profit (Loss)	235,887	299,059	230,681	406,267	289,906
Other comprehensive income, net of income tax	(35,345)	(96,545)	(24,861)	(28,394)	(66,121)
Total comprehensive income	200,542	202,514	205,820	377,873	223,785
Profit(Loss) attributable to owners of parent	199,911	260,709	200,252	370,105	249,158
Profit(Loss) attributable to non-controlling interests	35,976	38,350	30,429	36,162	40,748
Comprehensive income attributable to owners of parent	167,699	179,570	176,902	345,936	183,704
Comprehensive income attributable to non-controlling interests	32,843	22,944	28,918	31,937	40,081
Earnings per share (Note)	1.20	1.58	1.21	2.24	1.51

Note : Earning per share of year 2019 is Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.1.3 Consolidated Condensed Balance Sheets - Parent Company

Unit : NT\$ thousand

Item	Y e a r		2015	2016	2017	2018	2019
Current assets			2,014,399	3,330,084	3,197,393	3,481,176	3,362,942
Property, plant and equipment			444,934	431,180	418,710	412,781	399,051
Intangible assets			30,812	114,289	85,178	48,567	13,664
Other assets			1,660,404	1,654,851	1,417,386	1,348,542	1,519,061
Total assets			4,150,549	5,530,404	5,118,667	5,291,066	5,294,718
Current liabilities	Before distribution		1,459,090	2,860,897	2,590,060	2,428,187	2,277,795
	After distribution		1,624,226	3,158,143	2,791,026	2,642,864	(Note)
Non-current liabilities			375,995	340,992	310,565	445,253	630,270
Total liabilities	Before distribution		1,835,085	3,201,889	2,900,625	2,873,440	2,908,065
	After distribution		2,000,221	3,499,135	3,101,591	3,088,117	(Note)
Equity attributable to owners of the parent			2,315,464	2,328,515	2,218,042	2,417,626	2,386,653
Share capital			1,651,361	1,651,361	1,651,361	1,651,361	1,651,361
Capital surplus	Before distribution		275,976	242,949	186,765	199,091	199,091
	After distribution		242,949	176,894	186,765	199,091	(Note)
Retained earnings	Before distribution		354,666	479,387	442,995	599,645	632,606
	After distribution		222,557	248,196	242,029	384,968	(Note)
Other equity			33,461	(45,182)	(63,079)	(32,471)	(96,405)
Treasury shares			—	—	—	—	—
Non-controlling interests			—	—	—	—	—
Total equity	Before distribution		2,315,464	2,328,515	2,218,042	2,417,626	2,386,653
	After distribution		2,150,328	2,031,269	2,017,076	2,202,949	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.1.4 Condensed Statements of Comprehensive Income-Parent Company

Unit : NT\$ thousand

Item	Year				
	2015	2016	2017	2018	2019
Operating revenue	2,460,533	2,596,175	3,771,317	3,827,468	3,335,058
Gross profit	544,969	725,343	983,958	917,237	860,415
Operating income	164,673	233,933	420,729	340,233	226,162
Non-operating income and expenses	64,372	67,414	(151,465)	73,320	58,448
Income before income tax	229,045	301,347	269,264	413,553	284,610
Net profit(Loss)from continuing operations	199,911	260,709	200,252	370,105	249,158
Net profit(Loss)from close operations	—	—	—	—	—
Net profit (Loss)	199,911	260,709	200,252	370,105	249,158
Other comprehensive income, net of income tax	(32,212)	(81,139)	(23,350)	(24,169)	(65,454)
Total comprehensive income	167,699	179,570	176,902	345,936	183,704
Profit(Loss) attributable to owners of parent	—	—	—	—	—
Profit(Loss) attributable to non-controlling interests	—	—	—	—	—
Comprehensive income attributable to owners of parent	—	—	—	—	—
Comprehensive income attributable to non-controlling interests	—	—	—	—	—
Earnings per share (Note)	1.20	1.58	1.21	2.24	1.51

Note : Earning per share of year 2018 is Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.2 Auditors' Opinions from 2015 to 2019

Year	CPA	Audit Opinion	Remark
2019	LI TIEN YI 、 Kwok-ah Tsang	Unqualified Opinions	
2018	Kwok-ah Tsang 、 LI TIEN YI	Unqualified Opinions	
2017	LI TIEN YI 、 CHENG YA HUEI	Unqualified Opinions	
2016	LI TIEN YI 、 CHENG YA HUEI	Unqualified Opinion	
2015	LI TIEN YI 、 CHENG YA HUEI	modified unqualified opinion	

2. Five-Year Financial Analysis

2.1. Consolidated Financial Analysis –GPM & Subsidiaries

Unit : NT\$ thousand

Year (Note 1) Item		Financial Analysis from 2015 to 2018				
		2015	2016	2017	2018	2019
Capital structure analysis	Debt ratio (%)	47.58	58.28	58.99	56.13	56.29
	Long-term fund to property, plant and equipment ratio (%)	577.3	609.53	469.43	535.58	556.19
Liquidity analysis	Current ratio (%)	205.83	164.34	166.01	183.51	188.91
	Quick ratio (%)	168.62	124.97	115.67	141.4	153.71
	Times interest earned (Times)	28.7	32.03	20.3	24.47	10.8
Operating performance analysis	Average collection turnover (Times)	2.41	2.03	2.67	2.6	1.87
	Days sales outstanding	151	179.80	136.70	140.38	195.18
	Average inventory turnover (Times)	4.24	2.64	2.46	2.33	2.39
	Average payment turnover (Times)	3.45	2.16	2.69	2.18	2.32
	Average inventory turnover days	86	138.25	148.37	156.65	152.71
	Property, plant and equipment turnover (Times)	7.23	7.50	8.77	7.81	6.99
	Total assets turnover (Times)	0.78	0.65	0.77	0.76	0.65
Profitability analysis	Return on total assets (%)	5.25	5.56	3.93	6.66	4.91
	Return on equity attributable to owners of the parent (%)	9.14	11.55	8.96	15.04	10.2
	Pre-tax income to paid-in capital (%)	18.49	23.18	20.48	29.79	21.81
	Net margin (%)	6.47	8.15	4.76	8.33	6.84
	Earnings per share (NT\$)	1.2	1.58	1.21	2.24	1.51
Cash flow	Cash flow ratio (%)	2.11	19.14	8.54	6.79	—
	Cash flow adequacy ratio (%)	115.18	130.45	72.83	52.06	31.19
	Cash flow reinvestment ratio (%)	—	14.48	—	0.14	—
Leverage	Operating leverage	1.13	1.18	1.17	1.38	1.33
	Financial leverage	1.04	1.04	1.04	1.05	1.11

Changes that exceed 20% in the past two years and explanation for those changes:

- Interest coverage ratio: It is due to the decrease in the pre-tax income of in 2019 compared with that in 2018.
- Receivables turnover and average collection period: Due to the growing proportion of equipment sold to customers in Mainland China in recent years and the uncertainties of the acceptance schedule of customers, it is difficult to estimate the collection period. As a result, the proportion of receivables with a longer collection period has gradually increased.
- Return on asset, return on equity, pre-tax income to paid-in capital, earnings per share: It is due to a significant decrease in the net income of in 2019 compared with that in the previous period.
- Cash flow adequacy ratio: It is due to a significant increase in the receivables in 2019 and the net cash outflow of operating activities, the ratio has significantly decreased compared with that in the previous period.

2.2 Financial Analysis – Parent Company

Year (Note 1)		Financial Analysis from 2015 to 2018				
		2015	2016	2017	2018	2019
Item						
Capital structure analysis	Debt ratio (%)	44.21	57.89	56.66	54.30	54.92
	Long-term fund to property, plant and equipment ratio (%)	589.65	605.03	590.00	677.60	691.13
Liquidity analysis	Current ratio (%)	138.06	116.39	123.44	143.36	147.64
	Quick ratio (%)	108.16	81.74	72.94	102.93	115.42
	Times interest earned (Times)	23.38	27.44	19.07	26.7	10.15
Operating performance analysis	Average collection turnover (Times)	2.43	2.03	2.78	2.65	1.77
	Days sales outstanding	150	179.80	131.29	137.73	206.21
	Average inventory turnover (Times)	4.93	2.77	2.47	2.43	2.75
	Average payment turnover (Times)	3.15	1.83	1.99	2.05	2.14
	Average inventory turnover days	74	131.76	147.77	150.2	132.72
	Property, plant and equipment turnover (Times)	5.48	5.92	8.87	9.2	8.21
	Total assets turnover (Times)	0.62	0.53	0.7	0.73	0.63
Profitability analysis	Return on total assets (%)	5.24	5.59	4.00	7.38	5.16
	Return on equity attributable to owners of the parent (%)	8.57	11.22	8.80	15.96	10.37
	Pre-tax income to paid-in capital (%)	13.87	18.24	16.30	25.04	17.23
	Net margin (%)	8.12	10.04	5.30	9.66	7.47
	Earnings per share (NT\$)	1.2	1.58	1.21	2.24	1.51
Cash flow	Cash flow ratio (%)	2.18	15.91	5.53	5.36	—
	Cash flow adequacy ratio (%)	110.25	120.92	74.37	48.02	10.93
	Cash flow reinvestment ratio (%)	—	17.18	—	—	—
Leverage	Operating leverage	1.12	1.13	1.1	1.37	1.17
	Financial leverage	1.07	1.05	1.03	1.05	1.15

Changes that exceed 20% in the past two years and explanation for those changes:

- Interest coverage ratio: It is due to the decrease in the pre-tax income of in 2019 compared with that in 2018.
- Receivables turnover and average collection period: Due to the growing proportion of equipment sold to customers in Mainland China in recent years and the uncertainties of the acceptance schedule of customers, it is difficult to estimate the collection period. As a result, the proportion of receivables with a longer collection period has gradually increased.
- Return on asset, return on equity, pre-tax income to paid-in capital, earnings per share: It is due to a decrease in the net income of in 2019 compared with that in the previous period.
- Cash flow adequacy ratio: It is due to a significant increase in the receivables in 2019 and the net cash outflow of operating activities, the ratio has significantly decreased compared with that in the previous period.

Note 1 : Financial analysis formula:

1. Capital Structure Analysis:

- (1). Debt ratio = Total liabilities / Total assets
- (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment

2. Liquidity Analysis:

- (1). Current ratio = Current assets / Current liabilities
- (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
- (3). Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating Performance Analysis:

- (1). Average collection turnover(includes account receivable and note receivable due to operating generated) = Net sales / Average account receivables(includes account receivable and note receivable due to operating generated).
- (2). Days sales outstanding = 365 / Average collection turnover
- (3). Average inventory turnover = Operating costs / Average inventory
- (4). Average payment turnover(includes account payable and note payable due to operating generated). = operating costs / Average account payables(includes account payable and note payable due to operating generated).
- (5). Average inventory turnover days = 365 / Average inventory turnover
- (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
- (7). Total assets turnover = Net sales / Average total assets

4. Profitability Analysis:

- (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
- (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
- (3). Net margin = Net income / Net sales
- (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding

5. Cash Flow:

- (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
- (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)

6. Leverage:

- (1). Operating leverage = (Net sales – variable costs and expenses) / Operating income
- (2). Financial leverage = Operating income / (Operating income – interest expenses)


3. Audit Committee's Review Report

Gallant Precision Machining Co., Ltd.

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Kwok-ah Tsang & LI TIEN YI was retained to audit GPM's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Gallant Precision Machining Co., Ltd. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Chairman of Audit Committee :



March 24 , 2020

4. Financial Statements and Independent Auditors' Report- Parent Company

REPORT OF INDEPENDENT ACCOUNTANTS

To Gallant Precision Machining Co., Ltd.

Opinion

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

In our opinion, based on our audits and the reports of other independent accountants, as described in the Other matter section of our report, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2019 and 2018, and its parent company only financial performance and its parent company only cash flows for the years ended December 31, 2019 and 2018, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and 「Financial Supervisory Commission Letter No. 1090360805 of February 25, 2020」 and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China ("ROC GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountant of the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Evaluation of inventories

Description

Gallant Precision Machining Co., Ltd is primarily engaged in the manufacture and sale of flat panel display testing equipment, semiconductor assembly equipment, intelligent automated equipment, and related parts. Inventories are stated at the lower of cost and net realizable value and regarding the accounting policy on the evaluation of inventories are disclosed in Note 4(11) of the parent company only financial statements. The uncertainty of accounting estimations and assumptions for valuation of inventories are disclosed in Note 5(2) of the parent company only financial statements. The inventories and allowance for inventory valuation loss amounting to NT773,132 thousand and NT63,315 thousand as of December 31, 2019 are disclosed in Note 6(5) of the parent company only financial statements.

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

How our audit addressed the matter

Our audit procedures performed included the following:

1. Obtained an understanding and assessed the reasonableness of the policy of the allowance for inventory valuation loss and compared whether consistent application of accounting policies in relation to the provision for inventory valuation losses.
2. Tested the accuracy of inventory aging report, included tested whether the quantity and amount of inventory is consistent with inventory ledger and verify the accuracy of the inventory age classification.
3. Assessed and confirmed the reasonableness in estimation of net realizable value and checked the related supporting documents.

4. Tested the reasonableness in accrual of the allowance for inventory valuation loss.

Cut-off of revenue recognition

Description

Refer to Note 4(25) and Note 6(17) of the parent company only financial statements for accounting policies on revenue recognition and the detail of revenue information.

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

How our audit addressed the matter

Our audit procedures performed included the following:

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

Other matter - Reference to the audits of other independent auditors

We did not audit the financial statements of certain investments accounted for under equity method. The financial statements of these investments accounted for under equity method were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements is based solely on the reports of other auditors. The amount of investments accounted for using the equity method on the audit reports of the other independent accountants are NT30,148 thousand and NT27,337 thousand, constituting 1% and 1% of the total assets as of December 31, 2019 and 2018, respectively, and its share of the loss

amounting to NT2,811 thousand and NT(39,424) thousand, constituting 1.53% and (11.40%) of the total comprehensive income for the years then ended, respectively.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Independent Accountant's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those

risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

PricewaterhouseCoopers, Taiwan
March 24, 2020

The accompanying parent 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 parent 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.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 324,483	6	\$ 621,590	12
1110	Financial assets at fair value through profit or loss - current	6(2)	120,353	2	278,730	5
1136	Financial assets at amortized cost - current	6(3)	77,885	2	177,328	3
1150	Notes receivable, net	6(4)	31,568	1	503	-
1170	Accounts receivable, net	6(4)	2,069,179	39	1,417,626	27
1200	Other receivables		2,500	-	2,566	-
1210	Other receivables - related parties	7	3,132	-	1,218	-
130X	Inventories, net	6(5)	709,817	14	957,096	18
1410	Prepayments		15,897	-	18,802	1
1470	Other current assets	8	8,128	-	5,717	-
11XX	Current Assets		<u>3,362,942</u>	<u>64</u>	<u>3,481,176</u>	<u>66</u>
Non-current assets						
1535	Financial assets at amortized cost - non-current	6(3) and 8	13,365	-	8,345	-
1550	Investments accounted for using equity method	6(6)	1,214,431	23	1,270,202	24
1600	Property, plant and equipment, net	6(7) and 8	399,051	8	412,781	8
1755	Right-of-use assets	6(8)	214,660	4	-	-
1780	Intangible assets, net		13,664	-	48,567	1
1840	Deferred income tax assets	6(23)	73,933	1	66,056	1
1900	Other non-current assets	8	2,672	-	3,939	-
15XX	Non-current assets		<u>1,931,776</u>	<u>36</u>	<u>1,809,890</u>	<u>34</u>
1XXX	Total assets		<u>\$ 5,294,718</u>	<u>100</u>	<u>\$ 5,291,066</u>	<u>100</u>

(Continued)

GALLANT PRECISION MACHINING CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term loans	6(9)	\$ 918,987	17	\$ 585,121	11
2130	Contract liabilities-current	6(17)	107,874	2	45,666	1
2170	Accounts payable	6(10)	843,930	16	1,338,983	25
2180	Accounts payable - related parties	7	51,201	1	-	-
2200	Other payables		206,534	4	272,514	5
2230	Current income tax liabilities	6(23)	21,565	1	21,838	1
2250	Provisions for liabilities - current		111,156	2	150,132	3
2280	Lease liabilities-current		4,774	-	-	-
2300	Other current liabilities	6 (11)	11,774	-	13,933	-
21XX	Current Liabilities		<u>2,277,795</u>	<u>43</u>	<u>2,428,187</u>	<u>46</u>
Non-current liabilities						
2527	Contract liabilities-non-current	6(17)	-	-	5,422	-
2540	long-term loans	6(11)	371,330	7	379,403	7
2570	Deferred income tax liabilities	6(23)	-	-	6,338	-
2580	Lease liabilities-non-current		211,428	4	-	-
2600	Other non-current liabilities		47,512	1	54,090	1
25XX	Non-current liabilities		<u>630,270</u>	<u>12</u>	<u>445,253</u>	<u>8</u>
2XXX	Total Liabilities		<u>2,908,065</u>	<u>55</u>	<u>2,873,440</u>	<u>54</u>
Equity						
Share capital						
3110	Share capital - common stock	6(13)	1,651,361	31	1,651,361	31
Capital surplus						
3200	Capital surplus	6(14)	199,091	4	199,091	3
Retained earnings						
3310	Legal reserve	6(15)	123,722	2	86,712	2
3320	Special reserve		132,987	3	132,987	3
3350	Unappropriated retained earnings		375,897	7	379,946	7
Other equity interest						
3400	Other equity interest	6(16)	(96,405)	(2)	(32,471)	-
3XXX	Total equity		<u>2,386,653</u>	<u>45</u>	<u>2,417,626</u>	<u>46</u>
Significant contingent liabilities and unrecognized contract commitments						
3X2X	Total liabilities and equity		<u>\$ 5,294,718</u>	<u>100</u>	<u>\$ 5,291,066</u>	<u>100</u>

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

GALLANT PRECISION MACHINING CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

Items	Notes	Years ended December 31				
		2019		2018		
		AMOUNT	%	AMOUNT	%	
4000	Operating revenue	6(17)	\$ 3,335,058	100	\$ 3,827,468	100
5000	Operating costs	6(5)	(2,474,657)	(74)	(2,910,329)	(76)
5900	Operating margin		860,401	26	917,139	24
5910	Unrealized profit from sales		66	-	80	-
5920	Realized profit from sales		80	-	178	-
5950	Net operating margin		860,415	26	917,237	24
	Operating expenses	6(21)(22)				
6100	Selling expenses		(128,169)	(4)	(113,859)	(3)
6200	General and administrative expenses		(197,869)	(6)	(253,845)	(7)
6300	Research and development expenses		(231,872)	(7)	(232,343)	(6)
6450	Impairment (loss) gain		(76,343)	(2)	23,043	1
6000	Total operating expenses		(634,253)	(19)	(577,004)	(15)
6900	Operating profit		226,162	7	340,233	9
	Non-operating income and expenses					
7010	Other income	6(18)	37,947	1	57,122	1
7020	Other gains and losses	6(19)	(15,784)	-	28,225	1
7050	Finance costs	6(20)	(30,548)	(1)	(17,995)	-
7070	Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	6(6)	66,833	2	5,968	-
7000	Total non-operating income and expenses		58,448	2	73,320	2
7900	Profit before tax		284,610	9	413,553	11
7950	Income tax expense	6(23)	(35,452)	(1)	(43,448)	(1)
8200	Profit for the year		\$ 249,158	8	\$ 370,105	10
	Other comprehensive income for the year					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Remeasurement of defined benefit obligation		(\$ 1,520)	-	(\$ 3,131)	-
8316	Unrealized loss on investments in equity instruments at fair value through other comprehensive income		(38,688)	(1)	7,374	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(23)	10,168	-	(9,313)	-
8310	Components that will not be reclassified subsequently to profit or loss:		(30,040)	(1)	(5,070)	-
	Components of other comprehensive income that may be reclassified subsequently to profit or loss					
8361	Cumulative translation differences of foreign operations		(35,414)	(1)	(19,099)	(1)
8360	Components of other comprehensive income that may be reclassified subsequently to profit or loss:		(35,414)	(1)	(19,099)	(1)
8300	Other comprehensive income (loss) for the year		(\$ 65,454)	(2)	(\$ 24,169)	(1)
8500	Total comprehensive income for the year		\$ 183,704	6	\$ 345,936	9
	Basic earnings per share	6(24)				
9750	Basic earnings per share		\$ 1.51		\$ 2.24	
	Diluted earnings per share	6(24)				
9850	Diluted earnings per share		\$ 1.49		\$ 2.20	

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

GALLANT PRECISION MACHINING CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Notes	Share capital - common stock	Capital surplus	Retained Earnings			Other equity			Total equity	
			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 year ended December 31, 2018										
	Balance at January 1, 2018	\$ 1,651,361	\$ 186,765	\$ 66,921	\$ 178,169	\$ 197,905	(\$ 45,187)	\$ -	(\$ 17,892)	\$ 2,218,042
	Effects of retrospective application	-	-	-	-	5,032	-	19,364	17,892	42,288
	Balance at January 1, 2018 after adjustments	1,651,361	186,765	66,921	178,169	202,937	(45,187)	19,364	-	2,260,330
	Profit for the year	-	-	-	-	370,105	-	-	-	370,105
	Other comprehensive income for the year 6(16)	-	-	-	-	(3,131)	(19,099)	(1,939)	-	(24,169)
	Total comprehensive income for the year	-	-	-	-	366,974	(19,099)	(1,939)	-	345,936
	Distribution of 2017 earnings:									
	Legal reserve	-	-	19,791	-	(19,791)	-	-	-	-
	Special reserve	-	-	-	(45,182)	45,182	-	-	-	-
	Cash dividends	-	-	-	-	(200,966)	-	-	-	(200,966)
	Effect of changes in the net equity of subsidiary accounted for under equity method 6(14)	-	12,326	-	-	-	-	-	-	12,326
	Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(14,390)	-	14,390	-	-
	Balance at December 31, 2018	\$ 1,651,361	\$ 199,091	\$ 86,712	\$ 132,987	\$ 379,946	(\$ 64,286)	\$ 31,815	\$ -	\$ 2,417,626
For the year ended December 31, 2019										
	Balance at January 1, 2019	\$ 1,651,361	\$ 199,091	\$ 86,712	\$ 132,987	\$ 379,946	(\$ 64,286)	\$ 31,815	\$ -	\$ 2,417,626
	Profit for the year	-	-	-	-	249,158	-	-	-	249,158
	Other comprehensive income for the year 6(16)	-	-	-	-	(1,520)	(35,414)	(28,520)	-	(65,454)
	Total comprehensive income for the year	-	-	-	-	247,638	(35,414)	(28,520)	-	183,704
	Distribution of 2018 earnings:									
	Legal reserve	-	-	37,010	-	(37,010)	-	-	-	-
	Cash dividends	-	-	-	-	(214,677)	-	-	-	(214,677)
	Balance at December 31, 2019	\$ 1,651,361	\$ 199,091	\$ 123,722	\$ 132,987	\$ 375,897	(\$ 99,700)	\$ 3,295	\$ -	\$ 2,386,653

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

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

	Notes	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax for the year		\$ 284,610	\$ 413,553
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(21)	22,903	16,400
Amortization	6(21)	35,495	39,667
Net gain on financial assets or liabilities at fair value through profit or loss		(1,207)	(2,276)
Gain on disposal of financial assets at fair value through profit or loss		20	-
Expected credit loss (gain)	12(2)	76,343	(23,043)
Interest expense	6(20)	30,548	17,995
Interest income	6(18)	(1,966)	(2,937)
Share of profits of associates and joint ventures accounted for using equity method		(66,833)	(5,968)
Property, plant and equipment transferred to expenses		-	1,648
Impairment loss from non – financial assets		965	
Unrealized profits from sales		66	80
Realized profits from sales		(80)	(178)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss - current		159,563	(243,778)
Notes receivable		(31,065)	1,814
Accounts receivable		(727,896)	(168,504)
Other receivables		(372)	1,273
Other receivables - related parties		(1,915)	-
Inventories		247,279	327,760
Prepayments		2,905	(4,178)
Other current assets		(2,410)	1,305
Net changes in liabilities relating to operating activities			
Contract liabilities		56,786	(93,425)
Accounts payable		(495,053)	(88,434)
Accounts payable - related parties		51,201	(4,417)
Other payables		(59,884)	41,615
Provisions for liabilities		(38,976)	4,641
Unearned receipts		(1,552)	(752)
Other current liabilities		(46)	375
Accrued pension liabilities		(8,096)	(5,559)
Cash generated from operations		(468,667)	224,677
Income tax paid		(39,773)	(80,680)
Interest received		2,405	2,458
Interest paid		(31,022)	(16,162)
Net cash provided by operating activities		(537,057)	130,293

(Continued)

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

	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at amortized cost		\$ 94,423	(\$ 27,608)
Proceeds from disposal of financial assets at fair value through other comprehensive income		-	13,955
Acquisition of investments accounted for using equity method		-	(30,900)
Proceeds from decrease capital of investments accounted for using equity method		-	89,790
Acquisition of property, plant and equipment	6(27)	(3,591)	(10,768)
Acquisition of intangible assets		(1,873)	(1,498)
Refundable deposits refunded (paid)		302	(557)
Dividends received from investments accounted for using equity method		<u>48,515</u>	<u>48,515</u>
Net cash provided by (used in) investing activities		<u>137,776</u>	<u>80,929</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term loans	6(28)	1,864,072	1,306,798
Repayment of short-term loans	6(28)	(1,530,206)	(1,276,407)
Increase in long-term loans	6(28)	350,000	350,000
Repayment of long-term loans	6(28)	(358,634)	(242,869)
Guarantee deposits received		-	(1,668)
Payment of cash dividends		(214,677)	(200,966)
Repayment of the principal portion of lease liabilities	6(28)	(<u>8,381</u>)	<u>-</u>
Net cash provided by (used in) financing activities		<u>102,174</u>	(<u>65,112</u>)
Net increase in cash and cash equivalents		(297,107)	146,110
Cash and cash equivalents at beginning of year	6(1)	<u>621,590</u>	<u>475,480</u>
Cash and cash equivalents at end of year	6(1)	<u>\$ 324,483</u>	<u>\$ 621,590</u>

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

GALLANT PRECISION MACHINING CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. HISTORY AND ORGANIZATION

Gallant Precision Machining Co., Ltd. (the Company) was incorporated on December 22, 1978. The Company are engaged in the design, manufacture and sale of molds and machinery, metal parts and mold parts, stamping parts and die-cast parts, and automated manufacturing systems and their unit equipment, as well as the management and investment in the relevant business.

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

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

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

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

Except for the followings, the above standards and interpretations have no significant impact to the Company 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 Company has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Company increased ‘right-of-use asset’ by \$221,055 and increased ‘lease liability’ by \$221,055 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
 - 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 \$5,466 was recognized in 2019.
 - d. The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.
 - e. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

D. The Company calculated the present value of lease liabilities by using the incremental borrowing interest rate which ranging from 1.31% to 1.597%.

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

Operating lease commitments disclosed under IAS 17 as of December 31, 2018	\$ 65,515
Add/Less: Adjustments as a result of a different treatment of extension and termination options	211,602
Total lease contracts amount recognized as lease liabilities under IFRS 16 as of January 1, 2019	<u>\$ 277,117</u>
The range of incremental borrowing interest rate at the date of initial application	<u>1.31%~1.597%</u>
Lease liabilities recognized as of January 1, 2019 under IFRS16	<u>\$ 221,055</u>

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

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

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

The above standards and interpretations have no significant impact to the 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, 2021
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 Company financial condition and operating result based on the Company assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

(2) Basis of preparation

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

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

B. The preparation of financial statements in conformity with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are

significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the“functional currency”). The parent company only financial statements are presented in New Taiwan Dollars, which is the Company’s functional and presentation currency.

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and

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

(4) Classification of current and non-current items

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

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

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

- a. The amount of the initial measurement of lease liability;
- b. Any 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.

(6) Financial assets at amortised cost

A. Financial assets at amortised cost are those that meet all of the following criteria:

- (a) The objective of the Company's business model is achieved by collecting contractual cash flows.
- (b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

D. The Company's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(7) Accounts and notes receivable

Effective from 2018

A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured

at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

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

(9) Derecognition of financial assets

The Company derecognizes a financial asset when one of the following conditions is met:

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

(10) Operating leases (lessor)

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.

(11) Inventories

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

(12) Investments accounted for using equity method / subsidiaries and associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

- B. Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Company are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company should continue to recognize losses in proportion to its ownership.
- D. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- E. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- F. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- G. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- H. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the company.
- I. When the Company disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to

the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

- J. According to “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, profit and other comprehensive income in the parent company only financial statements should be the same as profit and other comprehensive income attributable to shareholders of the parent in the consolidated financial statements, and the equity in the parent company only financial statements should be the same as the equity attributable to shareholders of the parent in the consolidated financial statements.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets’ residual values and useful lives differ from previous estimates or the patterns of consumption of the assets’ future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10 ~ 50 years
Machinery and equipment	8 years
Furniture and fixtures	3~ 10 years
Other equipment	5 ~ 15 years

(14) Leased assets/ leases (lessee)

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

(15) Intangible assets

A. Computer software

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

B. Other intangible assets

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

(16) Impairment of non-financial assets

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

(17) Borrowings

Effective from 2018

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

(18) Notes and accounts payable

Effective from 2018

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

B. The short-term notes and accounts payable without bearing interest are subsequently measured at

initial invoice amount as the effect of discounting is immaterial.

(19) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(20) Provisions

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

(21) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i . Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits

will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

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

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

C. Termination benefits

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

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

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

(22) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Share capital

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

(24) Dividends

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

(25) Revenue recognition

A. Sales of goods

- (a) The Company provides manufacturing and sales of Flat display manufacturing inspection equipment, Semiconductor packaging equipment, Intelligent automation equipment and parts products. Sales are recognised when control of the products has transferred, being when the

products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales are recognised based on the price specified in the contract.

(c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Company does not adjust the transaction price to reflect the time value of money.

B. Sales of services

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

(26) Government grants

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of December 31, 2019, the carrying amount of inventories was \$709,817.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 132	\$ 161
Checking accounts	26	26
Demand deposits	324,325	621,403
Total	<u>\$ 324,483</u>	<u>\$ 621,590</u>

A. The Company 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. As of December 31, 2019 and 2018, cash and cash equivalents pledged to Customs and others as collateral were classified as financial assets at amortised cost-non-current in note 8.

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

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Financial assets mandatorily at fair value through profit or loss		
Beneficiary certificates	\$ 120,023	\$ 277,914
Valuation adjustment	330	816
	<u>\$ 120,353</u>	<u>\$ 278,730</u>

A. The Company recognized net gain of \$1,207 and \$2,276 on financial assets and liabilities designated as at fair value through profit or loss for the year ended December 31, 2019 and 2018, respectively.

B. The Company 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 amortized cost

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Time deposits	\$ 77,885	\$ 177,328
Non-current items:		
Time deposits	13,365	8,345
	<u>\$ 91,250</u>	<u>\$ 185,673</u>

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

B. Details of the Company'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).

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

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

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

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

(5) Notes and accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable	\$ 31,568	\$ 503
Accounts receivable	\$ 2,210,771	\$ 1,513,742
Less: allowance for bad debts	(141,592)	(96,116)
	<u>\$ 2,069,179</u>	<u>\$ 1,417,626</u>

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

	December 31, 2019		December 31, 2018	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Without past due	\$ 1,812,777	\$ 31,568	\$ 1,275,090	\$ 503
Up to 30 days	113,124	-	15,501	-
31 to 90 days	116,305	-	88,434	-
91 to 180 days	82,670	-	34,606	-
Over 181 days	85,895	-	100,111	-
	<u>\$ 2,210,771</u>	<u>\$ 31,568</u>	<u>\$ 1,513,742</u>	<u>\$ 503</u>

The above ageing analysis was based on past due date.

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

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

(5) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 52,449	(\$ 7,906)	\$ 44,543
Work in progress	639,890	(55,406)	584,484
Finished goods	80,272	(3)	80,269
Inventory in transit	521	-	521
Total	<u>\$ 773,132</u>	<u>(\$ 63,315)</u>	<u>\$ 709,817</u>

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 75,534	(\$ 6,229)	\$ 69,305
Work in progress	947,819	(74,995)	872,824
Finished goods	14,937	(2)	14,935
Inventory in transit	32	-	32
Total	<u>\$ 1,038,322</u>	<u>(\$ 81,226)</u>	<u>\$ 957,096</u>

The cost of inventories recognized as expense for the year:

	Year ended December 31, 2019	Year ended December 31, 2018
Cost of goods sold	\$ 2,492,568	\$ 2,838,784
Loss on (gain on reversal of) decline in market value	(17,911)	70,700
Loss on disposal inventory	-	845
	<u>\$ 2,474,657</u>	<u>\$ 2,910,329</u>

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

(7) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Gallant-Rapid Corporation Ltd. (the “GRC”)	\$ 208,563	\$ 265,042
Gallant Precision Machinery (BVI) Ltd.(the GPM(BVI))	361,306	377,157
APEX-I International Co., Ltd.	81,884	66,099
Chun-Zhun Enterprise Corporation Ltd. (the “CZE”)	10,223	11,943
Sunengine Co., Ltd.	30,148	27,337
Gallant Micro. Machining Co., Ltd.	523,819	524,136
	<u>1,215,943</u>	<u>1,271,714</u>
Accumulated impairment	(1,512)	(1,512)
	<u>\$ 1,214,431</u>	<u>\$ 1,270,202</u>

A. Investments in subsidiaries

Information about the Company’s subsidiaries is provided in Note 4(3) of the 2019 consolidated financial statements.

B. Associates

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

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

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

(8) Property, plant and equipment

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Transportation equipment</u>	<u>Leased assets</u>	<u>Others</u>	<u>Total</u>
At January 1, 2019							
Cost	\$ 477,490	\$ 8,863	\$ 12,989	\$ 1,178	\$ 66,693	\$ 10,255	\$ 577,468
Accumulated depreciation and impairment	(133,548)	(3,343)	(7,503)	(941)	(16,067)	(3,285)	(164,687)
	<u>\$ 343,942</u>	<u>\$ 5,520</u>	<u>\$ 5,486</u>	<u>\$ 237</u>	<u>\$ 50,626</u>	<u>\$ 6,970</u>	<u>\$ 412,781</u>
<u>2019</u>							
Opening net book amount as at January 1	\$ 343,942	\$ 5,520	\$ 5,486	\$ 237	\$ 50,626	\$ 6,970	\$ 412,781
Additions	-	-	2,778	-	-	-	2,778
Reclassifications	(977)	-	-	-	977	-	-
Depreciation charge	(8,590)	(955)	(3,023)	(187)	(2,277)	(1,476)	(16,508)
Closing net book amount as at December 31	<u>\$ 334,375</u>	<u>\$ 4,565</u>	<u>\$ 5,241</u>	<u>\$ 50</u>	<u>\$ 49,326</u>	<u>\$ 5,494</u>	<u>\$ 399,051</u>
At December, 31, 2019							
Cost	\$ 472,804	\$ 8,484	\$ 10,532	\$ 510	\$ 65,683	\$ 9,805	\$ 567,818
Accumulated depreciation and impairment	(138,429)	(3,919)	(5,291)	(460)	(16,357)	(4,311)	(168,767)
	<u>\$ 334,375</u>	<u>\$ 4,565</u>	<u>\$ 5,241</u>	<u>\$ 50</u>	<u>\$ 49,326</u>	<u>\$ 5,494</u>	<u>\$ 399,051</u>

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Transportation equipment</u>	<u>Leased assets</u>	<u>Others</u>	<u>Total</u>
At January 1, 2018							
Cost	\$ 427,430	\$ 1,662	\$ 377	\$ 1,178	\$ 116,753	\$ 20,470	\$ 567,870
Accumulated depreciation and impairment	(112,701)	(1,281)	(176)	(745)	(25,590)	(8,667)	(149,160)
	<u>\$ 314,729</u>	<u>\$ 381</u>	<u>\$ 201</u>	<u>\$ 433</u>	<u>\$ 91,163</u>	<u>\$ 11,803</u>	<u>\$ 418,710</u>
<u>2018</u>							
Opening net book amount as at January 1	\$ 314,729	\$ 381	\$ 201	\$ 433	\$ 91,163	\$ 11,803	\$ 418,710
Additions	-	2,011	4,350	-	-	5,758	12,119
Disposals	- (	104)	(205)	-	- (	564)	(873)
Reclassifications	39,328	4,115	3,982	- (	39,328)	(8,872)	(775)
Depreciation charge	(10,115)	(883)	(2,842)	(196)	(1,209)	(1,155)	(16,400)
Closing net book amount as at December 31	<u>\$ 343,942</u>	<u>\$ 5,520</u>	<u>\$ 5,486</u>	<u>\$ 237</u>	<u>\$ 50,626</u>	<u>\$ 6,970</u>	<u>\$ 412,781</u>
At December, 31, 2018							
Cost	\$ 477,490	\$ 8,863	\$ 12,989	\$ 1,178	\$ 66,693	\$ 10,255	\$ 577,468
Accumulated depreciation and impairment	(133,548)	(3,343)	(7,503)	(941)	(16,067)	(3,285)	(164,687)
	<u>\$ 343,942</u>	<u>\$ 5,520</u>	<u>\$ 5,486</u>	<u>\$ 237</u>	<u>\$ 50,626</u>	<u>\$ 6,970</u>	<u>\$ 412,781</u>

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

(9) Leasing arrangements – lessee

Effective 2019

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

	<u>December 31, 2019</u>	<u>Year ended December 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Land	\$ 214,408	(\$ 6,022)
Transportation equipment (business vehicles)	-	(135)
Office equipment (multifunction printers)	252	(238)
	<u>\$ 214,660</u>	<u>(\$ 6,395)</u>

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

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

	<u>Year ended December 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 3,528
Expense on short-term lease contracts	5,466

- E. For the years ended December 31, 2019, the Company's total cash outflow for leases was \$17,375.

(10) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	\$ 918,987	1.08%~2.90%	None
<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Unsecured Banking Loan	\$ 585,121	3.20%~3.83%	None

(11) Accounts payable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable	\$ 723,270	\$ 1,199,083
Accrued accounts payable	120,660	139,900
	<u>\$ 843,930</u>	<u>\$ 1,338,983</u>

(12) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2019</u>
Mortgage borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.22%	Note A	\$ 23,207
Unsecured borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.32%	None	6,197
Mortgage borrowings	Borrowing period is from September 27, 2019 to September 27, 2021; interest is repayable monthly and principal is repayable in September, 2021.	1.36%	Note A 、 Note B	<u>350,000</u>
				379,404
Less: current portion				(8,074)
				<u>\$ 371,330</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2018</u>
Mortgage borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.22%	Note A	\$ 30,025
Unsecured borrowings	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.32%	None	8,013
Mortgage borrowings	Borrowing period is from September 25, 2018 to September 24, 2020; interest is repayable monthly and principal is repayable in September, 2020.	1.40%	Note A 、 Note C	<u>350,000</u>
				388,038
Less: current portion				(8,635)
				<u>\$ 379,403</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.
- (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).

(13) Pensions

A. (a) The Company 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 contributes monthly an amount equal to 7% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company 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 will make contribution for the deficit by next March.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	(\$ 79,281)	(\$ 78,111)
Fair value of plan assets	<u>34,136</u>	<u>26,372</u>
Net defined benefit liability	<u>(\$ 45,145)</u>	<u>(\$ 51,739)</u>

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

	Present value of defined benefit obligations	Fair value of Plan assets	Net defined benefit liability
Year ended December 31, 2019			
Balance at January 1	(\$ 78,111)	\$ 26,372	(\$ 51,739)
Current service cost	(526)	-	(526)
Interest (expense) income	(768)	289	(479)
Past service cost	2,426	-	2,426
	<u>(76,979)</u>	<u>26,661</u>	<u>(50,318)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	784	784
Change in financial assumptions	(1,895)	-	(1,895)
Change in demographic assumptions	(434)	-	(434)
Experience adjustments	27	-	27
	<u>(2,302)</u>	<u>784</u>	<u>(1,518)</u>
Pension fund contribution	-	6,691	6,691
Paid pension	694	(694)	-
Balance at December 31	<u>(\$ 78,587)</u>	<u>\$ 33,442</u>	<u>(\$ 45,145)</u>
	Present value of defined benefit obligations	Fair value of Plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	(\$ 73,123)	\$ 18,942	(\$ 54,181)
Current service cost	(540)	-	(540)
Interest (expense) income	(912)	283	(629)
	<u>(74,575)</u>	<u>19,225</u>	<u>(55,350)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	404	404
Change in financial assumptions	(1,927)	-	(1,927)
Change in demographic assumptions	(384)	-	(384)
Experience adjustments	(1,225)	-	(1,225)
	<u>(3,536)</u>	<u>404</u>	<u>(3,132)</u>
Pension fund contribution	-	6,743	6,743
Paid pension	-	-	-
Balance at December 31	<u>(\$ 78,111)</u>	<u>\$ 26,372</u>	<u>(\$ 51,739)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan

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

(e) The principal actuarial assumptions used were as follows:

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

Assumptions regarding future mortality experience are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

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

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

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

(f) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2020 amount to \$7,767.

(h) As of December 31, 2019, the weighted average duration of that retirement plan is 9 year. The analysis of timing of the future pension payment was as follows:

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

B. (a) Effective July 1, 2005, the Company 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 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) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2019 and 2018 were \$19,191 and \$17,801, respectively.

(14) Share capital

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

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

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

(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.

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

(16) 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, 2017, respectively, the shareholders resolved that total dividends for the distribution of earnings for the year of 2018 and 2017 were as following:

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

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

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration please refer to Note 6(23).

(17) Other equity items

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

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

(18) Operating revenue

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue from Contracts with Customers	<u>\$ 3,335,058</u>	<u>\$ 3,827,468</u>

A. Disaggregation of revenue from contracts with customers

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

Year ended December 31, 2019	Taiwan	China	Other	Total
Revenue from external customer contracts	<u>\$ 850,893</u>	<u>\$ 2,466,241</u>	<u>\$ 17,924</u>	<u>\$ 3,335,058</u>
Timing of revenue recognition				
At a point in time	\$ 845,371	\$ 2,466,241	\$ 17,924	\$ 3,329,536
Over time	<u>5,522</u>	<u>-</u>	<u>-</u>	<u>5,522</u>
	<u>\$ 850,893</u>	<u>\$ 2,466,241</u>	<u>\$ 17,924</u>	<u>\$ 3,335,058</u>

Year ended December 31, 2018	Taiwan	China	Other	Total
Revenue from external customer contracts	<u>\$ 1,548,483</u>	<u>\$ 2,201,175</u>	<u>\$ 77,810</u>	<u>\$ 3,827,468</u>
Timing of revenue recognition				
At a point in time	\$ 1,536,935	\$ 2,195,429	\$ 77,157	\$ 3,809,521
Over time	<u>11,548</u>	<u>5,746</u>	<u>653</u>	<u>17,947</u>
	<u>\$ 1,548,483</u>	<u>\$ 2,201,175</u>	<u>\$ 77,810</u>	<u>\$ 3,827,468</u>

B. Contract liabilities

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liabilities:			
Contract liabilities-Deposit	\$ 107,874	\$ 51,088	\$ 144,513

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

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Deposit	\$ 45,023	\$ 144,513
Total	\$ 45,023	\$ 144,513

(19) Other income

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest income	\$ 1,966	\$ 2,937
Rental revenue	15,386	16,424
Government subsidy income	10,305	17,825
Others	10,290	19,936
Total	\$ 37,947	\$ 57,122

(20) Other gains and losses

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Net gains on financial assets and liabilities at fair value through profit or loss	\$ 1,207	\$ 2,276
Net currency exchange (losses) gains	(16,026)	25,949
Impairment loss	(965)	-
Total	\$ 15,784	\$ 28,225

(21) Finance costs

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest expense	\$ 30,548	\$ 17,995

(22) Expenses by nature

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Employee benefit expense	\$ 548,811	\$ 578,693
Depreciation charges on property, plant and equipment	\$ 22,903	\$ 16,400
Amortization charges on intangible assets	\$ 35,495	\$ 39,667

(23) Employee benefit expense

	Year ended December 31, 2019	Year ended December 31, 2018
Wages and salaries	\$ 475,736	\$ 506,917
Labour and health insurance fees	36,539	33,733
Pension costs	17,770	18,969
Other personnel expenses	18,766	19,074
	<u>\$ 548,811</u>	<u>\$ 578,693</u>

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

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

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

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at \$39,008 and \$54,418, respectively; while directors' and supervisors' remuneration was accrued at \$6,612 and \$9,567, respectively.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 11% and 2% of distributable profit of current year for the year ended December 31, 2019.

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

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

(24) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Current tax:		
Current tax on profits for the year	\$ 46,228	\$ 59,889
Tax on undistributed surplus earnings	5,296	-
Prior year income tax (over) underestimation	(12,025)	(10,503)
Total current tax	<u>39,499</u>	<u>49,386</u>
Deferred tax:		
Origination and reversal of temporary differences	(4,047)	4,765
Impact of changing in tax rate	-	(10,703)
Total deferred tax	<u>(4,047)</u>	<u>(5,938)</u>
Income tax expense	<u>\$ 35,452</u>	<u>\$ 43,448</u>

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

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Share of other comprehensive income of associates	<u>\$ 10,168</u>	<u>(\$ 9,313)</u>

B. Reconciliation between income tax expense and accounting profit

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 56,850	\$ 82,711
Change in assessment of realisation of deferred tax assets	(14,669)	(18,057)
Prior year income tax (over) underestimation	(12,025)	(10,503)
Impact of changing in tax rate	-	(10,703)
Tax on undistributed earnings	5,296	-
Tax expenses	<u>\$ 35,452</u>	<u>\$ 43,448</u>

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

	Year ended December 31, 2019			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 16,195	\$ 7,639	\$ -	\$ 23,834
Inventory obsolescence and market price decline	16,245	(3,582)	-	12,663
Warranty provision	30,027	(7,796)	-	22,231
Accrued pension cost	5,563	(1,594)	-	3,969
Unrealized gain of financial assets at fair value through other comprehensive income	-	-	3,830	3,830
Others	(1,974)	9,380	-	7,406
Subtotal	<u>66,056</u>	<u>4,047</u>	<u>3,830</u>	<u>73,933</u>
Deferred tax liabilities:				
Unrealized gain of financial assets at fair value through other comprehensive income	(6,338)	-	6,338	-
Subtotal	<u>(6,338)</u>	<u>-</u>	<u>6,338</u>	<u>-</u>
Total	<u>\$ 59,718</u>	<u>\$ 4,047</u>	<u>\$ 10,168</u>	<u>\$ 73,933</u>

	Year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 20,730	(\$ 4,535)	\$ -	\$ 16,195
Inventory obsolescence and market price decline	1,790	14,455	-	16,245
Warranty provision	24,734	5,293	-	30,027
Accrued pension cost	5,674	(111)	-	5,563
Others	7,190	(9,164)	-	(1,974)
Subtotal	<u>60,118</u>	<u>5,938</u>	<u>-</u>	<u>66,056</u>
Deferred tax liabilities:				
Unrealized gain of financial assets at fair value through other comprehensive income	-	-	(6,338)	(6,338)
Subtotal	<u>-</u>	<u>-</u>	<u>(6,338)</u>	<u>(6,338)</u>
Total	<u>\$ 60,118</u>	<u>\$ 5,938</u>	<u>(\$ 6,338)</u>	<u>\$ 59,718</u>

(26) Transactions with non-controlling interest

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

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

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

(27) Operating leases

Effective 2018

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

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

B. The Company leases in plant assets under non-cancellable operating lease agreements. The lease terms are between 2013 and 2036 years. The Company recognized rental expenses of \$6,960 for the years ended December 31, 2018. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	
Not later than one year	\$	6,770
Later than one year but not later than five years		26,880
Later than five years		<u>31,865</u>
	\$	<u>65,515</u>

(28) Supplemental cash flow information

Investing activities with partial cash payments

	<u>Year ended</u> <u>December 31, 2019</u>		<u>Year ended</u> <u>December 31, 2018</u>	
Purchase of property, plant and equipment	\$	2,778	\$	12,119
Add: opening balance of payable on equipment		1,726		375
Less: ending balance of payable on equipment	(	<u>913)</u>	(	<u>1,726)</u>
Cash paid during the year	\$	<u>3,591</u>	\$	<u>10,768</u>

(29) 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	\$ 585,121	\$ 388,038	\$ 2,336	\$ 221,055	\$ 1,196,550
Changes in cash flow from financing activities	333,866	(8,634)	-	(8,381)	316,851
Changes in other non-cash items	-	-	-	3,528	3,528
At December 30, 2019	<u>\$ 918,987</u>	<u>\$ 379,404</u>	<u>\$ 2,336</u>	<u>\$ 216,202</u>	<u>\$ 1,516,929</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	\$ 554,730	\$ 280,907	\$ 4,004	\$ 839,641
Changes in cash flow from financing activities	30,391	107,131	(1,668)	135,854
At December 30, 2018	<u>\$ 585,121</u>	<u>\$ 388,038</u>	<u>\$ 2,336</u>	<u>\$ 975,495</u>

7. RELATED-PARTY TRANSACTIONS

(1) Names and relationship of related parties

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

(2) Significant related party transactions

A. Purchases

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Purchases of goods:		
Subsidiary	\$ <u>172,617</u>	\$ <u>129,576</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. Receivables from related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other receivables		
Subsidiary	\$ <u>3,132</u>	\$ <u>1,218</u>

C. Payables from related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payables:		
Subsidiary	\$ 51,201	\$ -

D. Other

	<u>Year ended December 31, 2019</u>		<u>Year ended December 31, 2018</u>	
	<u>Item</u>	<u>Amount</u>	<u>Item</u>	<u>Amount</u>
Other:	Other revenue	\$ 3,537	Other revenue	\$ 3,002
Subsidiary	Procurement service revenue	\$ 6,499	Procurement service revenue	\$ 10,692
	After sales services expense from overseas	\$ 31,459	After sales services expense from overseas	\$ 48,862

E. Endorsements and guarantees provided to related parties:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Associate	\$ 100,000	\$ 180,000

(3) Key management compensation

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Salaries and other short-term employee benefits	\$ 32,460	\$ 17,556
Post-employment benefits	833	426
Total	\$ 33,293	\$ 17,982

8. PLEDGED ASSETS

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

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	
Time deposits (shown as "financial assets at amortised cost non-current")	\$ 13,365	8,345	Exercise guarantee for construction and customs deposit
Property, plant and equipment	387,505	394,569	Long-term borrowings
	<u>\$ 400,870</u>	<u>\$ 402,914</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingent liabilities

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

(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 (26).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

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

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

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

	December 31, 2019	December 31, 2018
Total borrowings	\$ 1,298,391	\$ 973,159
Less: Cash and cash equivalents	(324,483)	(621,590)
Net debt	973,908	351,569
Total equity	2,386,653	2,417,626
Total capital	\$ 3,360,561	\$ 2,769,195
Gearing ratio	28.98%	12.70%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 120,353	\$ 278,730
Financial assets at fair value through other comprehensive income		
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	324,483	621,590
Financial assets at amortised cost	91,250	185,673
Notes receivables	31,568	503
Accounts receivables	2,069,179	1,417,626
Other accounts receivables	5,632	3,784
Guarantee deposits paid	2,671	3,939
	<u>\$ 2,645,136</u>	<u>\$ 2,511,845</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 918,987	\$ 585,121
Accounts payable	895,131	1,338,983
Other accounts payable	206,534	272,719
Long-term borrowings (including current portion)	379,404	388,038
Guarantee deposits received	2,336	2,336
	<u>2,402,392</u>	<u>2,587,197</u>
Leases liabilities	<u>\$ 216,202</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 66,322	29.98	\$ 1,988,340
JPY:NTD	61,571	0.276	16,994
RMB:NTD	3,800	4.305	16,359
<u>Non-monetary items: None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 30,412	29.98	\$ 911,758
JPY:NTD	73,105	0.276	20,177
RMB:NTD	7,163	4.375	30,838
<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>			
USD:NTD	\$ 31,377	30.715	\$ 963,748
JPY:NTD	281,171	0.2782	78,222
RMB:NTD	33,817	4.472	151,229
<u>Non-monetary items: None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 20,220	30.715	\$ 621,061
JPY:NTD	309,340	0.2827	86,059
RMB:NTD	7,293	4.472	32,616
<u>Non-monetary items: None</u>			

- ii. Total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018, amounted to (\$16,026) and \$25,949, respectively.
- iii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

		Year ended December 31, 2019		
		Sensitivity analysis		
		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
	USD:NTD	1%	\$ 19,883	\$ -
	JPY:NTD	1%	170	-
	RMB:NTD	1%	164	-
<u>Financial liability</u>				
<u>Monetary items</u>				
	USD:NTD	1%	(\$ 9,118)	\$ -
	JPY:NTD	1%	(202)	-
	RMB:NTD	1%	(308)	-

		Year ended December 31, 2018		
		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
	USD:NTD	1%	\$ 9,637	\$ -
	JPY:NTD	1%	782	-
	RMB:NTD	1%	1,512	-
<u>Financial liability</u>				
<u>Monetary items</u>				
	USD:NTD	1%	(\$ 6,211)	\$ -
	JPY:NTD	1%	(861)	-
	RMB:NTD	1%	(326)	-

Price risk

- A. The Company'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 Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- B. The Company's investments in equity securities comprise domestic listed and unlisted stocks, shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased with all other variables held constant, post-tax profit for the year ended December 31, 2019 and 2018 would have increased/decreased by \$1,204 and \$2,787, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$0 and \$0, 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 Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company 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 Company to fair value interest rate risk. During the year ended December 31, 2019 and 2018, the Company's borrowings at variable rate were denominated in the NTD, JPY, USD. If the interest rate had increased/decreased by 1%, the amount of cash flow out for the year ended December 31, 2019 and 2018 would have increased/decreased by \$9,131 and \$8,567, respectively.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Company manages their credit risk taking into consideration the entire Company's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Company's credit policy, each local entity in the Company 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 Company adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
 - If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- 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 Company classifies customer's accounts receivable, in accordance with credit rating of customer. The Company applies the simplified approach using provision matrix, loss

rate methodology to estimate expected credit loss under the provision matrix basis.

vii. The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights.

viii. The Company used the forecastability of Panel industry research report to adjust historical and timely information to assess the default possibility of accounts receivable. The provision matrix as of December 31, 2019 and 2018, is as follows:

At December 31, 2019	Without past due	Up to 0 -90 days	Up to 91 -120 days	Up to 120 days	Total
Expected loss rate	0.00%-0.60%	0.01%-28.02%	0.26%-32.67%	0.95%-100%	
Total book value	\$ 1,812,777	\$ 229,429	\$ 8,686	\$ 159,879	\$2,210,771
Loss allowance	\$ 3,690	\$ 15,962	\$ 3,499	\$ 118,441	\$ 141,592

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	0.00%-0.26%	0.01%-13.77%	0.13%-16.87%	3.35%-100%	
Total book value	\$ 1,275,090	\$ 103,935	\$ 7,984	\$ 126,733	\$1,513,742
Loss allowance	\$ 708	\$ 4,091	\$ 1,346	\$ 89,971	\$ 96,116

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

	For the year ended December 31, 2019	
	Accounts receivable	
At January 1	\$	96,116
Provision for impairment		76,343
Reversal of impairment loss		-
Write-offs	(	30,867)
At December 31	\$	141,592
	For the year ended December 31, 2018	
	Accounts receivable	
At January 1_IAS 39	\$	135,581
Adjustments under new standards		-
At January 1_IFRS 9		135,581
Provision for impairment		637
Reversal of impairment loss	(	23,680)
Write-offs	(	16,422)
At December 31	\$	96,116

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

	Year ended December 31, 2019			
	12 months	Lifetime		Total
		Significant increase in credit risk	Impairment of credit	
Financial assets at amortised cost				
Group 1	\$ 91,250	\$ -	\$ -	\$ 91,250
Group 2	-	-	-	-
Group 3	-	-	-	-
	<u>\$ 91,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,250</u>

	Year ended December 31, 2018			
	12 months	Lifetime		Total
		Significant increase in credit risk	Impairment of credit	
Financial assets at amortised cost				
Group 1	\$ 185,673	\$ -	\$ -	\$ 185,673
Group 2	-	-	-	-
Group 3	-	-	-	-
	<u>\$ 185,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,673</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 Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company'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 Company treasury. Company 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 of December 31, 2019 and 2018, the Company held money market position of \$522,563 and \$1,077,461, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The Company has the following undrawn borrowing facilities:

	December 31, 2019	December 31, 2018
Floating rate:		
Expiring within one year	1,056,042	1,114,200
Expiring beyond one year	-	-
	<u>\$ 1,056,042</u>	<u>\$ 1,114,200</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2020. The other facilities have been arranged to help finance the proposed

equipment manufacturing and research and development business activities of the Company. Please refer to note 12.

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

Non-derivative financial liabilities:

December 31, 2019	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 409,227	\$ 509,760	\$ -	\$ -	\$ -
Accounts payable	328,691	200,941	-	314,298	-
Other payables	156,530	50,004	-	-	-
Leases liabilities	2,061	6,165	8,034	24,005	245,562
Long-term borrowings (including current portion)	3,285	9,882	361,915	13,290	-

Non-derivative financial liabilities:

December 31, 2018	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 240,499	\$ 344,622	\$ -	\$ -	\$ -
Accounts payable	617,148	249,051	-	472,784	-
Other payables	204,834	67,680	-	-	-
Long-term borrowings (including current portion)	4,414	9,961	361,066	21,684	-

Derivative financial liabilities:

December 31, 2019: None

Derivative financial liabilities:

December 31, 2018: None

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company'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 Company'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 Company'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 Company's financial instruments not measured at fair value (the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, deposit account(over 3 months), short-term borrowings, contract liabilities, accounts payable, other payables, lease payments (shown as other current assets and other non-current assets) and long-term borrowings (including current portion) are approximate to their fair values.

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

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

December 31, 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 120,353	\$ -	\$ -	\$ 120,353
Total	<u>\$ 120,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,353</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
Total	<u>\$ 278,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,730</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss : none				

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

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

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

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

interest rates quoted from Reuters).

- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, and options, the Company 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 Company'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 Company'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 Company takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Company's credit quality.
- D. For the years ended December 31, 2019 and 2018, there was no transfer into or out from the financial instruments movement of level 3.
- E. For the years ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.
- F. 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.

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: Please refer to table 4.

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 5.

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

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

14. SEGMENT INFORMATION

None.

Table 1

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

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

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

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

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

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

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

Table 1

Table 1

Table 2

**GALLANT PRECISION MACHINING CO., LTD.
ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 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 (Note2)	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Footnote
		Name	Nature of Relationship											
0	Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Subsidiary	\$ 477,259	\$ 180,000	\$ 100,000	\$ 189	\$ -	4.19	\$ 1,193,327	Y	N	N	

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

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

Table 2

Table 3

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

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

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

Table 3

Table 4

GALLANT PRECISION MACHINING CO., LTD.
PURCHASES OR SALES OF GOODS FROM OR TO RELATED PARTIES
REACHING \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

Table 5

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

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

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

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

(1) Number 0 represents the Company.

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

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

(1) The Company to the consolidated subsidiaries.

(2) The consolidated subsidiaries to the Company.

(3) The consolidated subsidiaries to another consolidated subsidiaries.

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

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

Table 6

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

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

Investor Company	Investee Company(note1 · 2)	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2019			Net Income (Losses) of the Investee(note2(2))	Share of Profits/ Losses of Investee(note2(3))	Footnote
				December 31, 2019	December 31, 2018	Shares	Percentage of Ownership	Carrying Value			
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	British Virgin Islands	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	\$ 459,050	\$ 459,050	13,560,000	100.00	\$ 208,563	\$ 2,507	\$ 2,507	
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.	British Virgin Islands	Investment Gallant Precision Machinery (Xiamen) Co., Ltd.	660,506	660,506	20,289,000	100.00	359,805 (	1,974) (	1,974)
Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Taiwan	Marketing and selling of process equipment of LCD and related parts.	46,657	46,657	6,600,000	100.00	81,884	15,960	15,960	
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd.	British Virgin Islands	Investing in Gallant Technology (Shenzhen) Co., Ltd. and Chun-Zhun Precision Machining (Guang Zhou Nan Sha) Corporation	125,671	125,671	3,576,000	100.00	10,212 (	1,328) (	1,328)
Gallant Precision Machining Co., Ltd.	Sunengine Co., Ltd.	Taiwan	Manufacturing and selling of battery and energy technology services business	366,877	366,877	7,568,259	37.84	30,148	7,429	2,811	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Taiwan	Manufacturing and selling of semiconductor related equipment and parts	379,182	379,182	16,171,750	57.19	523,819	85,429	48,857	
Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	British Virgin Islands	Investment Gallant Micro. Machining (Suzhou) Co., Ltd.	393,508	393,508	2,780,645	100.00	707,167	6,937	6,937	
Gallant Micro. Machining Co., Ltd.	Gallant Micro Machining (Malaysia) Sdn. Bhd.	Malaysia	Engaged in the import and export and trading business of semiconductor substrate machines and related parts	3,992	3,992	500,000	100.00	2,810 (	28) (	28)
Gallant Micro. Machining Co., Ltd.	Utron Technologies Corp	Taiwan	Testing of wire and tools and testing equipment of PBC and related systems	29,540	-	14,770	42.20	25,443 (	22,948) (	4,097)

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

Table 6

Table 7

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

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

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

Table 7

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

Note1: There are three methods of investment as follows

(1) Directly invest in Mainland China.

(2) Indirectly invest in Mainland China.

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

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

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

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

(3) Others.

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

(1) No investment income (loss) recognition.

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

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

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

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

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

Table 7-1

Table 8

GALLANT PRECISION MACHINING CO., LTD.
INFORMATION ON INVESTMENT IN MAINLAND CHINA (SIGNIFICANT TRANSACTIONS CONDUCTED WITH
INVESTEES IN MAINLAND CHINA DIRECTLY OR INDIRECTLY THROUGH OTHER COMPANIES IN THE THIRD
AREAS)
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

5. Financial Statements and Independent Auditors' Report-GPM & SUBSIDIARIES

REPRESENTATION LETTER

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

Very truly yours,

GALLANT PRECISION MACHINING CO., LTD.

By

Chairman

March 24, 2020

REPORT OF INDEPENDENT ACCOUNTANTS

To Gallant Precision Machining Co., Ltd.

Opinion

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

In our opinion, based on our audits and the audit reports of the other independent accountants, as described in the Other matter section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audit in accordance with the “Regulations Governing Auditing and 「Financial Supervisory Commission Letter No. 1090360805 of February 25, 2020」 and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”) for the year ended December 31, 2019. Our responsibilities under those standards are further described in the section of Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the audits report of the other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Evaluation of inventories

Description

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

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

How our audit addressed the matter

Our audit procedures performed included the following:

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

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

Cut-off of revenue recognition

Description

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

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

How our audit addressed the matter

Our audit procedures performed included the following:

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

Other matter - Reference to the audits of other independent auditors

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

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

Other matter - Parent company only financial statements

We have audited and expressed an unqualified opinion on the parent company only financial statements of Gallant Precision Machining Co., Ltd. as of and for the years ended December 31, 2019 and 2018.

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

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

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

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

Independent Accountant’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers, Taiwan
March 24, 2020

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

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

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

(Continued)

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

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

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

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

	Items	Notes	Years ended December 31			
			2019		2018	
			AMOUNT	%	AMOUNT	%
4000	Operating revenue	6(19) and 7	\$ 4,236,015	100	\$ 4,873,153	100
5000	Operating costs	6(6)(23)(24)	(3,005,394)	(71)	(3,586,821)	(74)
5900	Net operating margin		<u>1,230,621</u>	<u>29</u>	<u>1,286,332</u>	<u>26</u>
	Operating expenses	6(23)(24)				
6100	Selling expenses		(183,134)	(4)	(186,408)	(3)
6200	General and administrative expenses		(309,116)	(7)	(382,662)	(8)
6300	Research and development expenses		(307,787)	(7)	(337,534)	(7)
6450	Impairment loss (gain)		(71,458)	(2)	53,499	1
6000	Total operating expenses		<u>(871,495)</u>	<u>(20)</u>	<u>(853,105)</u>	<u>(17)</u>
6900	Operating profit		<u>359,126</u>	<u>9</u>	<u>433,227</u>	<u>9</u>
	Non-operating income and expenses					
7010	Other income	6(20)	59,998	1	81,097	2
7020	Other gains and losses	6(21)	(13,600)	-	40,033	1
7050	Finance costs	6(22)	(36,205)	(1)	(22,860)	(1)
7060	Share of profit of associates and joint ventures accounted for under equity method		(9,070)	-	(39,424)	(1)
7000	Total non-operating income and expenses		<u>1,123</u>	<u>-</u>	<u>58,846</u>	<u>1</u>
7900	Profit before tax		<u>360,249</u>	<u>9</u>	<u>492,073</u>	<u>10</u>
7950	Income tax expense	6(25)	(70,343)	(2)	(85,806)	(2)
8200	Profit for the year		<u>\$ 289,906</u>	<u>7</u>	<u>\$ 406,267</u>	<u>8</u>
	Other comprehensive income for the year					
	Items that will not be reclassified subsequently to profit or loss:					
8311	Loss on remeasurements of defined benefit plan		(\$ 1,520)	-	(\$ 3,131)	-
8316	Unrealized gain on investments in equity instruments at fair value through other comprehensive income	6(18)	(21,562)	(1)	9,976	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(25)	4,277	-	(11,541)	-
8310	Items that will not be reclassified subsequently to profit or loss:		<u>(18,805)</u>	<u>(1)</u>	<u>(4,696)</u>	<u>-</u>
	Items that may be reclassified subsequently to profit or loss:					
8361	Cumulative translation differences of foreign operations	6(18)	(47,316)	(1)	(23,698)	-
8360	Summary of Components of other comprehensive income that will be reclassified to profit or loss		<u>(47,316)</u>	<u>(1)</u>	<u>(23,698)</u>	<u>-</u>
8300	Other comprehensive (loss) income for the year		<u>(\$ 66,121)</u>	<u>(2)</u>	<u>(\$ 28,394)</u>	<u>-</u>
8500	Total comprehensive income for the year		<u>\$ 223,785</u>	<u>5</u>	<u>\$ 377,873</u>	<u>8</u>
	Profit attributable to:					
8610	Equity holders of the parent company		\$ 249,158	6	\$ 370,105	7
8620	Non-controlling interest		40,748	1	36,162	1
	Profit for the year		<u>\$ 289,906</u>	<u>7</u>	<u>\$ 406,267</u>	<u>8</u>
	Total comprehensive income attributable to:					
8710	Equity holders of the parent company		\$ 183,704	4	\$ 345,936	7
8720	Non-controlling interest		40,081	1	31,937	1
	Total comprehensive income for the year		<u>\$ 223,785</u>	<u>5</u>	<u>\$ 377,873</u>	<u>8</u>
	Basic earnings per share	6(26)				
9750	Profit for the year		<u>\$ 1.51</u>		<u>\$ 2.24</u>	
	Diluted earnings per share	6(26)				
9850	Profit for the year		<u>\$ 1.49</u>		<u>\$ 2.20</u>	

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

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

		Equity attributable to owners of the parent										
		Retained Earnings					Other Equity Interest					
Notes	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	Total	Non- controlling interest	Total equity	
For the year ended December 31, 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
6(18)	Effects of retrospective application	-	-	-	-	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 year	-	-	-	-	370,105	-	-	-	370,105	36,162	406,267
6(18)	Other comprehensive income for the year	-	-	-	(3,131)	(19,099)	(1,939)	-	(24,169)	(4,225)	(28,394)	
	Total comprehensive income for the year	-	-	-	-	<u>366,974</u>	<u>(19,099)</u>	<u>(1,939)</u>	-	<u>345,936</u>	<u>31,937</u>	<u>377,873</u>
	Distribution of 2017 earnings:											
	Legal reserve	-	-	19,791	(19,791)	-	-	-	-	-	-	-
	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	-	-	-	-	
6(27)	Recognition of changes in equities of subsidiaries	-	12,326	-	-	-	-	-	-	12,326	-	12,326
	Cash dividends paid from subsidiaries	-	-	-	-	-	-	-	-	(28,637)	(28,637)	
	Changes in non-controlling interest	-	-	-	-	-	-	-	-	109,552	109,552	
	Balance at December 31, 2018	<u>\$ 1,651,361</u>	<u>\$ 199,091</u>	<u>\$ 86,712</u>	<u>\$ 132,987</u>	<u>\$ 379,946</u>	<u>(\$ 64,286)</u>	<u>\$ 31,815</u>	<u>\$ -</u>	<u>\$ 2,417,626</u>	<u>\$ 442,905</u>	<u>\$ 2,860,531</u>
For the year ended December 31, 2019												
	Balance at January 1, 2019	\$ 1,651,361	\$ 199,091	\$ 86,712	\$ 132,987	\$ 379,946	(\$ 64,286)	\$ 31,815	\$ -	\$ 2,417,626	\$ 442,905	\$ 2,860,531
	Profit for the year	-	-	-	-	249,158	-	-	-	249,158	40,748	289,906
6(18)	Other comprehensive income for the year	-	-	-	(1,520)	(35,414)	(28,520)	-	(65,454)	(667)	(66,121)	
	Total comprehensive income for the year	-	-	-	-	<u>247,638</u>	<u>(35,414)</u>	<u>(28,520)</u>	-	<u>183,704</u>	<u>40,081</u>	<u>223,785</u>
	Distribution of 2018 earnings:											
	Legal reserve	-	-	37,010	(37,010)	-	-	-	-	-	-	-
	Cash dividends	-	-	-	(214,677)	-	-	-	(214,677)	-	(214,677)	
6(27)	Recognition of changes in equities of subsidiaries	-	-	-	-	-	-	-	-	(12,889)	(12,889)	
	Changes in non-controlling interest	-	-	-	-	-	-	-	-	(36,314)	(36,314)	
	Balance at December 31, 2019	<u>\$ 1,651,361</u>	<u>\$ 199,091</u>	<u>\$ 123,722</u>	<u>\$ 132,987</u>	<u>\$ 375,897</u>	<u>(\$ 99,700)</u>	<u>\$ 3,295</u>	<u>\$ -</u>	<u>\$ 2,386,653</u>	<u>\$ 433,783</u>	<u>\$ 2,820,436</u>

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

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

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

(Continued)

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

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

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

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. HISTORY AND ORGANIZATION

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

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

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

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

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

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

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

IFRS 16, ‘Leases’

- A. IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use asset’ by \$267,264 and increased ‘lease liability’ by \$267,264 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
 - a. Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - b. The use of single discount rate to a portfolio of leases with reasonably similar characteristics.
 - c. The accounting for operating leases whose period will end before December 31, 2019 as shortterm lease and accordingly, rent expense of \$24,538 was recognized in 2019.
 - d. The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.

- e. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Group calculated the present value of lease liabilities by using the incremental borrowing interest rate which ranging from 1.31% to 5%.
- E. The Group recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

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

B. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

<u>Name of Investor</u>	<u>Name of subsidiary</u>	<u>Main Business Activities</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>December 31, 2019</u>	<u>December 31, 2018</u>	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Manufacturing and selling of semiconductor related equipment and parts	57.19	57.19	Note A
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd. (the "GRC")	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	100	100	
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.(the GPM(BVI))	Investing in Gallant Precision Machinery (Xiamen) Co., Ltd.	100	100	
Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Marketing and selling of process equipment of LCD and related parts.	100	100	
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd. (the "CZE")	Investing in Gallant Technology (Shenzhen) Co., Ltd.	100	100	
Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd. (the "KMC")	Investing in Gallant Micro. Machining (Suzhou) Co., Ltd.	100	100	
Gallant Micro. Machining Co., Ltd.	Gallant Micro Machining (Malaysia) Sdn. Bhd. (the "GMMM")	Engaged in the import and export and trading business of semiconductor substrate machines and related parts	100	100	
GRC	Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	
KMC	Gallant Micro. Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	100	100	
GPM(BVI)	Gallant Precision Machinery (Xiamen) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	
Gallant Precision Machinery (Xiamen) Co., Ltd.	Gallant Biotech (Suzhou) Co., Ltd.	Engaged in technology development, consulting, promotion and transfer in biotechnology industry, as well as the agency service of product and technology and import and export business.	29.14	51	Note B
CZE	Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	100	100	
Gallant Precision Industries (Suzhou) Co., Ltd.	Gallant International Trading Co., Ltd.	Engaged in selling of mechanical equipment	100	100	
Gallant Precision Industries	Gallant Precision Intelligence	Manufacturing of optoelectronic products	60	60	

(Suzhou) Co., Ltd.	Technology Co.,Ltd.	equipment, mechanical equipment and related parts		
Gallant International Trading Co., Ltd.	Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	100	100

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

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

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

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

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

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

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

Summarised financial information of the subsidiaries:

Balance sheets

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

Statements of comprehensive income

	Gallant Micro. Machining Co., Ltd. and its subsidiary	
	Year ended	Year ended
	December 31, 2019	December 31, 2018
Revenue	\$ 758,006	\$ 922,261

Profit before income tax	\$	106,877	\$	122,094
Income tax expense	(	21,448)	(	34,608)
Profit for the year from continuing operations		85,429		87,486
Loss from discontinued operations		-		-
Profit for the year		85,429		87,486
Other comprehensive income, net of tax	(	1,154)	(	12,443)
Total comprehensive income for the year	\$	84,275	\$	75,043
Comprehensive income attributable to non-controlling interest	\$	35,810	\$	32,126
Dividends paid to non-controlling interest	\$	36,314	\$	28,637

Statements of cash flows

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

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within "other gains and losses".

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and
- (c) All resulting exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;

- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

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

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

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

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and

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

(8) Financial assets at amortised cost

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

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

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

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

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

(12) Inventories

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

(13) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity that are not recognized in profit or loss or other

comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.

- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.
- G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10 ~ 50 years
Machinery and equipment	3 ~ 10 years
Furniture and fixtures	3~ 10 years
Other equipment	5 ~ 15 years

(15) Leased assets/ leases (lessee)

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

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

Effective from 2019

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

commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:

Fixed payments, less any lease incentives receivable;

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

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

a. The amount of the initial measurement of lease liability;

b. Any initial direct costs incurred by the lessee;

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

(17) Leased assets/ operating leases (lessee)

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

(18) Intangible assets

A. Computer software

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

B. Other intangible assets

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

(19) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the

circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(20) Borrowings

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

(21) Notes and accounts payable

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

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

(22) Derecognition of financial liabilities

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

(23) Provisions

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

(24) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i . Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.
- ii . Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

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

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

Employees' compensation and directors' and supervisors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in

estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(25) Income tax

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

net basis or realize the asset and settle the liability simultaneously.

(26) Share capital

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

(27) Dividends

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

(28) Revenue recognition

A. Sales of goods

(a) The Group provides manufacturing and sales of Flat display manufacturing inspection equipment, Semiconductor packaging equipment, Intelligent automation equipment and parts products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales are recognised based on the price specified in the contract.

(c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

B. Sales of services

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

(29) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that

the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate.

(30) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of December 31, 2019, the carrying amount of inventories was \$938,235.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 262	\$ 588
Checking accounts	26	26
Demand deposits	929,424	1,293,185
Total	<u>\$ 929,712</u>	<u>\$ 1,293,799</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Cash and cash equivalents pledged to Customs and others as collateral were classified as financial assets at amortised cost-current and financial assets at amortised cost-non-current. Please refer to note 8.

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

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

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

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

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

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

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

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

- B. The Group sold \$13,955 of Unicon Optical Co., Ltd., investments at fair value and resulted in cumulative losses (\$14,390) on disposal for the year ended December 31, 2018.
- C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

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

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

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

(4) Financial assets at amortized cost

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

- A. The Group transacts with financial institutions with high credit quality.
- B. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.
- C. Information relating to credit risk is provided in Note 12(2).

(5) Notes and accounts receivable

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

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

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

The above ageing analysis was based on past due date.

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

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

(6) Inventories

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

The cost of inventories recognized as expense for the year:

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

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

(7) Investments accounted for using equity method

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

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

B. Associates

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

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

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

(8) Property, plant and equipment

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

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

A. Amount of borrowing costs capitalized as part of property, plant and equipment were \$0 and \$0 for the years ended December 31, 2019 and 2018, respectively.

B. The significant components of buildings include main plants improvement and structure, which are depreciated over 10 to 50 years.

C. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

D. The above property, plant and equipment of the Group were for their own used.

(9) Leasing arrangements — lessee

Effective 2019

F. 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.

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

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

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

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

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

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

K. Extension and termination options

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

(10) Short-term borrowings

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

(11) Accounts payable

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

(12) Others accounts payable

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

(13) Long-term borrowings

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

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

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

Note B:

- (a) In order to repay the existing financial liabilities and enrich the medium-term working capital, the Company entered into a comprehensive credit contract amounting to \$800 million with China Trust Commercial Bank on September 27, 2019. The Company also applied for a drawdown of \$350,000 from the credit line granted by China Trust Commercial Bank in September, 2019.
- (b) According to the notice of credit between the Company and China Trust Commercial Bank, the financial ratios in the Company's annual and semi-annual consolidated financial statements should be maintained as follows:
 - i . Current ratio: the ratio of current assets divided by current liabilities shall be maintained above 120% (inclusive).
 - ii . Financial gearing ratio: the total of short-term borrowings, corporate bonds due within one year, mid and long-term borrowings due within one year and long-term borrowings, divided by the tangible net worth

shall not exceed 60%.

- iii. Net tangible net worth: the shareholders' equity after deducting intangible assets shall not be less than NT\$2,200,000 (inclusive).

Note C:

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

(14) Pensions

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

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

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

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

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

Change in demographic Assumptions	(384)	- (384)
Change in financial Assumptions	(1,927)	- (1,927)
Experience adjustments	(1,225)	- (1,225)
	<u>(3,536)</u>	<u>404 (3,132)</u>
Pension fund contribution	-	6,743 6,743
Paid pension	1,079	(1,079) -
Balance at December 31	<u>(\$ 77,603)</u>	<u>\$ 25,672 (\$ 51,931)</u>

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

(e) The principal actuarial assumptions used were as follows:

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

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

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

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

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

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

(f) Expected contributions to the defined benefit pension plans of the Group in the year ended December 31, 2020 amount to \$7,767.

(h) As of December 31, 2019, the weighted average duration of that retirement plan is 9 year. The analysis of timing of the future pension payment was as follows:

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

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries (APEX-I International Co., Ltd. and Gallant Micro. Machining Co., Ltd.) have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) Gallant Precision Industries (Suzhou) Co., Ltd., Gallant Micro. Machining (Suzhou) Co., Ltd., Gallant Precision Machinery (Xiamen) Co., Ltd., Gallant Technology (Shenzhen) Co., Ltd., Gallant Precision Intelligence Technology Co., Ltd. Gallant International Trading Co., Ltd. and Suzhou Jianmeifu Optical Co., Ltd., have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC.) are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage was 10% to 20%. Other than the monthly contributions, the Group has no further obligations.

(c) Gallant-Rapid Corporation Ltd., Gallant Micro Machining (Malaysia) Sdn. Bhd. Ltd., King Mechatronics Co., Ltd., Chun-Zhun Enterprise Corporation Ltd., and Gallant Precision Machinery (BVI) Ltd. did not have a pension plan.

(d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2019 and 2018 were \$34,564 and \$36,333, respectively.

(15) Share capital

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

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

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

(16) Capital surplus

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

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

(17) Retained earnings

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

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

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

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

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

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

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

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

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

(18) Other equity items

	Year ended December 31, 2019		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	\$ 31,815	(\$ 64,286)	(\$ 32,471)
Revaluation	(28,520)	-	(28,520)
Currency translation differences:—group	-	(35,414)	(35,414)
At December 31	<u>\$ 3,295</u>	<u>(\$ 99,700)</u>	<u>(\$ 96,405)</u>
	Year ended December 31, 2018		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	(\$ 17,892)	(\$ 45,187)	(\$ 63,079)
Effects of retrospective application			-
Revaluation	42,288	-	42,288
Revaluation transferred to retained earnings	(5,032)	-	(5,032)
Revaluation	(1,939)	-	(1,939)
Disposal transferred to retained earnings	14,390	-	14,390
Currency translation differences:—group	-	(19,099)	(19,099)
At December 31	<u>\$ 31,815</u>	<u>(\$ 64,286)</u>	<u>(\$ 32,471)</u>

(19) Operating revenue

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

A. Disaggregation of revenue from contracts with customers

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

	Year ended December 31, 2019			
	Taiwan	China	Other	Total
Total segment revenue	\$ 1,641,862	\$ 2,841,949	\$ 58,835	\$ 4,542,646
Inter-segment revenue	(282,587)	(23,964)	(80)	(306,631)
Revenue from external customer contracts	<u>\$ 1,359,275</u>	<u>\$ 2,817,985</u>	<u>\$ 58,755</u>	<u>\$ 4,236,015</u>
Timing of revenue recognition				
At a point in time	\$ 1,343,275	\$ 2,815,445	\$ 57,042	\$ 4,215,762
Over time	16,000	2,540	1,713	20,253
	<u>\$ 1,359,275</u>	<u>\$ 2,817,985</u>	<u>\$ 58,755</u>	<u>\$ 4,236,015</u>
	Year ended December 31, 2018			
	Taiwan	China	Other	Total
Total segment revenue	\$ 2,371,641	\$ 2,741,860	\$ 130,522	\$ 5,244,023
Inter-segment revenue	(307,659)	(63,211)	-	(370,870)
Revenue from external customer contracts	<u>\$ 2,063,982</u>	<u>\$ 2,678,649</u>	<u>\$ 130,522</u>	<u>\$ 4,873,153</u>
Timing of revenue recognition				
At a point in time	\$ 2,046,837	\$ 2,626,345	\$ 128,202	\$ 4,801,384
Over time	17,145	52,304	2,320	71,769
	<u>\$ 2,063,982</u>	<u>\$ 2,678,649</u>	<u>\$ 130,522</u>	<u>\$ 4,873,153</u>

B. Contract liabilities

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

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

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

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

(20) Other income

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

(21) Other gains and losses

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

(22) Finance costs

	Year ended December 31, 2019	Year ended December 31, 2018
Interest expense	\$ 36,205	\$ 22,860

(23) Expenses by nature

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

(24) Employee benefit expense

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

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

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

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

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

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

Information about employees' compensation and directors' and supervisors' remuneration of

the Company as resolved by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

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

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

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

B. Reconciliation between income tax expense and accounting profit

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

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

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

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

	December 31, 2019	December 31, 2018
Deductible temporary differences	\$ <u>69,625</u>	\$ <u>70,541</u>

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

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

(26) Earnings per share

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

(27) Transactions with non-controlling interest

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

interest to the subsidiary

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

	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)	<u>\$ 12,326</u>

(28) Operating leases

Effective 2018

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

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

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

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

(29) Supplemental cash flow information

Investing activities with partial cash payments

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

(30) Changes in liabilities from financing activities

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

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

7. RELATED-PARTY TRANSACTIONS

(1) Names and relationship of related parties

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

(2) Significant related party transactions

A. Purchases:

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

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

B. Payables to related parties:

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

C. Other transactions:

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

D. Loans to /from related parties:

Loans to related parties:

a. Outstanding balance:

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

b. Interest income:

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

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

(3) Key management compensation

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

8. PLEDGED ASSETS

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

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

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingent liabilities

- A. As of December 31, 2019 and December 31, 2018, the bank open a guarantee letter for the Company due to business tender and guarantee for construction amounting to \$64,971 and \$173,540, respectively.
- B. The Group's customer, China Chongqing Chongmei Huashixin Electronic Manufacturing Co., Ltd., purchased equipment products from the Company. However the customer was unwilling to sign the confirmation of acceptance and pay the rest payment to the Company and its subsidiary due to operation issues. The case has been submitted to China Chongqing Arbitration Commission for judgment in November, 2017. In June 2018, the Arbitration Commission has rejected the claim for the payment. As the Group has recognized allowance for related bad debts from 2015 to 2017, there is no impact to the Group's operation and financial performance.

(2) Unrecognized contract commitments

- A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:
None.
- B. Operating lease commitments: please refer to note 6(28).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) Due to the impact of the Coronavirus Disease 2019(COVID-19), the China subsidiaries of the Group complied with the Government policy to extend the Chinese Lunar New Year holidays. In early March, the China subsidiaries have resumed work in accordance with local regulations and set up the task force in response to the impact of COVID-19 immediately. As of the release date of the consolidated financial statements, there is no significant impact to the Group's operation and financial position.
- (2) On March 24, 2020, the Board of directors resolved to purchase 3,000 to 6,000 thousands shares of the Company. All the purchased shares will be transferred to employees.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

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

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

(2) Financial instruments

A. Financial instruments by category

	December 31, 2019	December 31, 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	\$ 120,353	\$ 278,730
Financial assets at fair value through other comprehensive income	103,462	125,024
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	929,712	1,293,799
Financial assets at amortised cost	849,169	887,466
Notes receivables	48,652	44,893
Accounts receivables	2,338,746	1,787,401
Other accounts receivables	51,625	15,499
Guarantee deposits paid	5,842	6,939
	<u>\$ 4,447,561</u>	<u>\$ 4,439,751</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 1,118,987	\$ 735,121
Contract liabilities	-	-
Accounts payable	996,060	1,571,185
Other accounts payable	321,108	394,664
Long-term borrowings (including current portion)	473,439	507,300
Guarantee deposits received	2,336	2,435
	<u>\$ 2,911,930</u>	<u>\$ 3,210,705</u>
Leases liabilities	<u>\$ 246,481</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial

performance.

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and MYR). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 77,187	29.98	\$ 2,314,067
JPY:NTD	79,198	0.2760	21,859
RMB:NTD	3,977	4.305	17,122
USD: RMB	3,681	6.964	110,369
<u>Non-monetary items: None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 30,513	29.98	\$ 914,794
JPY:NTD	82,078	0.2760	22,653
RMB:NTD	7,163	4.305	30,838
<u>Non-monetary items :None</u>			

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

- ii. Total exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018, amounted (\$16,579) and \$38,022, respectively.
- iii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

				Year ended December 31, 2019		
				Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD		1%	\$	23,141	\$	-
JPY:NTD		1%		219		-
RMB:NTD		1%		171		-
USD: RMB		1%		1,104		-
<u>Financial liability</u>						
<u>Monetary items</u>						
USD:NTD		1%	(\$	9,148)	\$	-
JPY:NTD		1%	(	227)		-
RMB:NTD		1%	(	318)		-

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

Price risk

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

Cash flow and fair value interest rate risk

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

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. If the contract payments were past due based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The Group classifies customer's accounts receivable, in accordance with credit rating of customer. The Group applies the simplified approach using provision matrix, loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vii. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- viii. The Group used the forecastability of Panel industry research report to adjust historical and timely information to assess the default possibility of accounts receivable. The provision matrix as of December 31, 2019 and 2018 is as follows:

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

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

(c) Liquidity risk

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

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

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

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

Non-derivative financial liabilities:

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

Non-derivative financial liabilities:

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

Derivative financial liabilities:

December 31, 2019 and December 31, 2018:None

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, beneficiary certificates, is included in Level 1

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

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

B. Financial instruments not measured at fair value

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

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

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

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

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

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

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

- i. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models.
- v. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- vi. The Group takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

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

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

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

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

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

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

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

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

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

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid in capital or more: None.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

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

(3) Information on investments in Mainland China

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

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

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

(2) Measurement of segment information

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

(3) Information about segment

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

Year ended December 31, 2019

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

Year ended December 31, 2018

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

(4) Reconciliation for segment income (loss)

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

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

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

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

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

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

(5) Information on product and service

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

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

(6) Geographical information

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

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

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

(7) Major customer information

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

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

Table 1

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

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

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

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

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

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

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

Table 1

Table 2

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

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

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

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

Table 2

Table 2

Table 3

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

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

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

Table 3

Table 4

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
PURCHASES OR SALES OF GOODS FROM OR TO RELATED PARTIES
REACHING NT\$100 MILLION OR 20% OF PAID IN CAPITAL OR MORE
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction term compared to third party transactions(note1)		Notes/accounts receivable (payable)		Footnote (note2)
			Purchases(sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Gallant Precision Machining Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	The Company holds indirectly 60% of the investee.	Purchases	\$ 171,598	7.72%	Similar to third parties	Similar to third parties	Similar to third parties	\$ -	0.00%	

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

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

Table 4

Table 5

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

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

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

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

(1) Number 0 represents the Company.

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

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

(1) The Company to the consolidated subsidiaries.

(2) The consolidated subsidiaries to the Company.

(3) The consolidated subsidiaries to another consolidated subsidiaries.

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

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

Table 5

Table 5

Table 6

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

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

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

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

Table 6

Table 7

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

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

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

Table 7-1

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

Note1: There are three methods of investment as follows

(1) Directly invest in Mainland China.

(2) Indirectly invest in Mainland China.

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

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

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

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

(3) Others.

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

(1) No investment income (loss) recognition.

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

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

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

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

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

Table 7-1

Table 7-1

Table 8

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES
 INFORMATION ON INVESTMENT IN MAINLAND CHINA (SIGNIFICANT TRANSACTIONS CONDUCTED WITH
 INVESTEES IN MAINLAND CHINA DIRECTLY OR INDIRECTLY THROUGH OTHER COMPANIES IN THE THIRD
 AREAS)
 FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

6. Financial Difficulties:

The Company should disclose the financial impact to the Company and its affiliated companies have incurred any financial or cash flow difficulties from Jan. 1, 2018 through until Mar. 31, 2019 : None.

VII. Financial Status, Operating Results and Status of Risk Management

1. Financial Status - Consolidated Report :

Unit: NT\$ thousands

Item	Year	2019	2018	Change	
				Amount	% of Change
Current Assets		5,304,587	5,556,032	(251,445)	(4.53)
Property, Plant and Equipment		588,628	622,497	(33,869)	(5.44)
Intangible Assets		25,692	65,961	(40,269)	(61.05)
Other Assets		534,953	276,706	258,247	93.33
Total Assets		6,453,860	6,521,196	(67,336)	(1.03)
Current Liabilities		2,807,895	3,027,527	(219,632)	(7.25)
Non-current Liabilities		825,529	633,138	192,391	30.39
Total Liabilities		3,633,424	3,660,665	(27,241)	(0.74)
Common Stock		1,651,361	1,651,361	0	0.00
Capital Surplus		199,091	199,091	0	0.00
Retained Earnings		632,606	599,645	32,961	5.50
Other Equity		(96,405)	(32,471)	(63,934)	196.90
Equity attributable to owners of the parent		2,386,653	2,417,626	(30,973)	(1.28)
Non-controlling Interest		433,783	442,905	(9,122)	(2.06)
Total Equity		2,820,436	2,860,531	(40,095)	(1.40)
Explanation for changes that exceed 20% and reached NT\$10 million in the past two years:					
1. The decrease in intangible assets is mainly due to the amortization of the royalty.					
2. The increase in other assets is mainly due to the new item of right-of-use assets provided in the IFRS16 Lease effective in 2019.					
3. The increase in non-current liabilities is mainly due to new item of lease liability-non-current provided in the IFRS16 Lease effective in 2019.					
4. The increase in other equity is mainly due to the increase in the non-current valuation of financial assets at fair value through other comprehensive income in 2019 and the increase in the exchange difference occurred when translating the amounts on the financial statements of foreign operating agencies.					

2. Operating Results-Consolidated Report :

2.1 For the past two years, the main reason that caused the significant changes in operating revenue, operating income and income before tax and its impacts:

Unit: NT\$ thousands

Item	Year	2019	2018	Change	% of Change
		Amount	Amount		
Net Sales		4,236,015	4,873,153	(637,138)	(13.07)
Gross Profit		1,230,621	1,286,332	(55,711)	(4.33)
Operating Income		359,126	433,227	(74,101)	(17.10)
Non-Operating Income and Expenses		1,123	58,846	(57,723)	(98.09)
Net Income before Income Tax		360,249	492,073	(131,824)	(26.79)
Net profit(Loss)from continuing operations		289,906	406,267	(116,361)	(28.64)
Net profit(Loss)from close operations		----	----	----	----
Net Income		289,906	406,267	(116,361)	(28.64)
Other Comprehensive Income, net of tax		(66,121)	(28,394)	(37,727)	132.87
Total Comprehensive Income		223,785	377,873	(154,088)	(40.78)
Profit(Loss) attributable to owners of parent		249,158	370,105	(120,947)	(32.68)
Profit(Loss) attributable to non-controlling interests		40,748	36,162	4,586	12.68
Comprehensive income attributable to owners of parent		183,704	345,936	(162,232)	(46.90)
Comprehensive income attributable to non-controlling interests		40,081	31,937	8,144	25.50
Earnings per share		1.51	2.24	(0.73)	(32.59)

For the past two years, the main reason that caused the significant changes in operating revenue, operating gain or loss and income before tax and its impacts:

1. Non-operating income and expenses, pre-tax income, current net income from the continuing operation, current net income (loss), consolidated net income attributed to owners of the parent, earnings per share: It is due to a significant exchange loss of non-operating foreign currency exchange in 2019.
2. Other comprehensive income (after tax) of the period, total comprehensive income of the period, consolidated net income attributed to owners of the parent: It is due to, compared with the previous period, the increase in the cumulative translation adjustment in 2019 and the loss set aside for the unrealized gains and losses of the valuation of financial assets at fair value through other comprehensive income.
3. Total comprehensive income attributable to non-controlling interest: The investment proportion of the incorporated individual Guoke Junhao fell to 29.14% in 2019. The recognized loss has decreased and the net profit of the non-controlling interest of Gallant Micro. Machining has increased compared with the previous period.

2.2 The expectation on sales volume and basis forming the expectation, the impacts on the Company's financial condition and business and the mitigation efforts:

Unit: Sets

Main Products	2020budget
Display Process Equipment	159
Semiconductor Process Equipment	265
Intelligent automation equipment	672
Other Equipment	45

Note: The forecast is based on the customers' forecast and taking into account the market conditions. The aforementioned estimated quantity does not include others and parts.

3. Cash Flow Analysis-Consolidated Report

Unit: NT\$ thousands

Cash Balance Dec. 31, 2018	Net Cash Provided by Operating Activities in 2019	Net Cash Outflows from Investing Activities in 2019	Net Cash Inflows from Financing Activities in 2019	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2019
1,293,799	(382,755)	(35,530)	75,046	(20,848)	929,712

3.1 Analysis of the Change in Cash Flow in 2018

1. Operating activity:

The increase in receivables and the decrease in payables result in the cash outflow of business activities in 2019.

2. Investing Activities:

Mainly due to the increase in the investments accounted for using the equity method in Utron.

3. Financing activity:

Mainly due to the increase in short-term debt.

3.2 Remedial Actions for Cash Shortfall :

The company has ample cash on-hand; remedial actions are not required.

1.3 Cash Flow Projection for Next Year :

- 1.The cash inflow of operating activities amounted to NT \$ 852,186 thousand: mainly coming from the account receivables and offset account payables and operating expenses.
- 2.The cash outflow of investment activities amounted to NT \$ 210,710 thousand: mainly due to the payment of cash dividends and remuneration of employees and directors of 2019.
- 3.The cash outflow of financing activities amounted to NT \$ 523,429 thousand: mainly due to the repayment of bank loans.

4.Major Capital Expenditure

4.1 Major Capital Expenditure and Sources of Funding : Not applicable.

5.Investment Policies :

5.1 Latest investment policy, major causes of profits and losses and improvement, and future plan for the next year (Investment that exceeds 5% of paid-in capital) :

Unit: NT\$ thousands

Item / Description	Initial Investment amount	Policy	The main reasons for profit/loss	Improvement plan
Gallant Precision Machinery (BVI) Ltd.	660,506	Investment in Gallant Precision Machinery (Xiamen) Co., Ltd.	The losses suffered in the past years are due to the change in the production plan of the main customer AUO, which led to the termination of the investment plan of the Xiamen plant of the Company. The non-operating earnings of the year are the increase in the interest income of time deposits, but the investment in Guoke Junhao recognized as the loss of reinvestment was greater than the interest income, which in turn leads to the loss.	In the process of liquidation
Chun Zhun Enterprise Corporation.	125,671	Investment in Gallanat Technology (Shenzhen) Co., Ltd.	One of the investment, Gallanat Technology (Shenzhen) Co., Ltd., has difficulties in business development. To stop the loss, Gallanat Technology (Shenzhen) Co., Ltd has been undergoing the liquidation process.	In the process of liquidation
Gallant-Rapid Corporation Limited	459,050	Investment in Gallant Precision Industries (Suzhou) Co., Ltd.	The Company's operating strategy has changed from the original after-sales service base that supports customers in the mainland market, to taking orders, assembly, delivery, and responsible for the production and assembly of the shifted orders, as well as the after-sales service of the mainland customers of the parent. Thanks to the cost control in 2019, the Company earned a profit in the period.	<ol style="list-style-type: none"> 1. Endeavoring to secure the distributing right of the machines manufactured abroad. 2. Strengthening the five major business functions of production, marketing, research and development, and profit, and expanding the research and development, assembly and production of equipment and the production of its spare parts. 3. Engancing the satisfaction of after-sales services provided for mainland customers. 4. Improving the internal process management mechanism.
Gallant Micro. Machining CO., Ltd.	379,182	Production and Sales of Precision Mold and other Parts	Costs and expenses control.	<ol style="list-style-type: none"> 1. Continuing to invest in the product development 2. Rearranging the marketing and product positioning of mainland and Taiwan market
Sunengine Co., Ltd.	366,877	Buy and Sales of battery manufacturing and energy technology service industry	The profit of Sunengine Corporation Ltd. in 2019 came from the revenue of power station construction (EPC) and module sales.	Sunengine mainly engaged in the development of land for power stations, and the one-stop service of resources integration, construction, and sales.

5.3 Investment plan for the next year: There will be no single investment that exceeds 5% of paid-in capital: As a result, this analysis is not applicable.

6. Risk Management

6.1 Risk Management Organizational Chart:

To promote CSR and sustainability, the Company establishes "Corporate Sustainability Committee" in 2016. The Corporate Sustainability Committee is in charge of affairs related to CSR, corporate governance and ethical corporate management policies. The execution and results shall be reported to Board of Directors at least once annually.

The organizational chart of the Company's Corporate Sustainability Committee:



6.2 The Impact and Future Mitigation Efforts to Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation

1. In 2019, the GPM Group has interest expense amounting NT\$36,205 thousand which accounts for 0.85% of sales. As a result, the fluctuation of interest rate does not impose significant effect to the Company.
2. In 2019, the GPM Group has exchange loss amounting to NT\$16,579 thousand which accounts for 0.39% of sales. This does not impose significant effect to the Company.
3. For the most recent fiscal year, inflation did not have significant impact on the GPM Group

6.3 The Impact and Future Mitigation Efforts to Risks Associated with High Risk/ High-Leveraged Investment, Lending, Endorsements, and Guarantees for Other Parties, and Financial Derivative Transactions:

To prudently control the financial risk, the Company does not take part in high risk and high leveraged investment. The Company's derivative transaction is not speculative. All the operation is in accordance with GPM's "Procedures for Acquisition or Disposal of Assets". Therefore, the Company does not have significant risk.

The Company stipulates control process such as "Procedures for endorsement and guarantee" and "Procedures for financing". As of March 31, 2020, the Company has provided NT\$100,000 thousand of guarantee to its Affiliates, which does not exceed the limitation.

Depending on subsidiaries operation, the Company will give support.

6.4 Future Research & Development Projects and Corresponding Budget:

The GPM Group R&D plan for the most recent fiscal year can be found on page 63. In 2020, R&D budget is NT\$346,085 thousand. So far the progress of R&D item is in line with R&D plan.

6.5 The Impacts of Changes of Important Domestic and Foreign Policies and Laws on the Company's Finances and Business, and the Countermeasures:

So far, the important policy and amendment of laws or regulations published by the government does not have significant impact on the Company. The GPM Group companies follows rules and regulations published by government, both domestically and internationally. The Company and companies that GPM has invested have personnel collecting the update of policies and laws for the reference of management team.

6.6 Impact of Technological and Market Changes on the Company's Finances and Business and Counter measures:

The GPM Group has designated personnel watch closely on the change of technological and market trend, evaluate the impact on the Company's future development and finance, and take necessary mitigation efforts. In the most recent fiscal year, there is no change of technology and industry that may have significant impact on the Company's finance and business.

6.7 The Impacts of Change of Corporate Image on the Enterprise Crisis Management and the Countermeasures:

For the past 30 years, the Company believes firmly in "Ethic, Passion, Innovation, Discipline" and "Down-to-Earth, Never give up" and apply this spirit into running business. As a result, the Company duly complies CSR and builds and maintains benign corporate image. Therefore, the Company does not foresee and impacts from the change of corporate image on the enterprise crisis management.

6.8 The Expected Benefit, Risk and Future Mitigation Efforts to Risks Associated with Mergers and Acquisitions: The company does not have a merger and acquisition plan

6.9 The Expected Benefit, Risk and Future Mitigation Efforts to Risks Associated with Facility Expansion: The company does not have a facility expansion plan

6.10 The Risk and Future Mitigation Efforts to Risks Associated with Purchase Concentration and Sales Concentration:

1. Our main materials and outsourcing partners mostly from domestic companies. The supplier are not irreplaceable and plenty of sources of supply. The Company adopts diversified procurement principle and maintains long-term stable relationship with supplier to minimize the risk of force majeure and shortage of source. As a result, the Company does not have the risk of purchase concentration.
2. In terms of FPD equipment sales, the clients were just a few panel factories. For a panel factory to construct plant, the capital expenditure payment is concentrated and the amount is enormous. This situation could easily lead to sales concentration for an equipment manufacturer. However, domestic clients are slowing down their pace in expansion in recent years. Coupled with GPM's effort of

business development in China, the demand from China has increased and catch up with domestic clients. Thus, the sales concentration risk has lowered dramatically.

3. Along with FPD field, GPM group is also actively seeking demands for equipment from other industries, including green energy, electronic component, shoes-making and medical device. The development of equipments includes processing equipment, optical inspection equipment, automation, integration of whole factory and production line. In the future, we can expect that sales customers will be in fair distribution.

6.11 The Effect, Risk and Mitigation Effort to Risks Associated with Sales of Significant Numbers of Shares by Directors and Major Shareholders Who Own 10% or More of the Total Outstanding Shares:

The shareholding transfer is monthly declared to Competent Authority for investors reference. GPM tracks closely the shareholdings variation of directors and shareholders holding more than 10% of the outstanding shares to lower risk and take immediate action. As of now, there is no transfer of shareholding that would have impact on the operation and financial condition of the Company.

6.12 Effects of, Risks and Response to Changes in Management Rights:

The Company does not have change in management rights.

6.13 For any litigious matters, whether the case has been finalized or the still pending, that involves the company and company's directors, supervisors, general managers, person with actual responsibility in the company, and major shareholders holding more than 10% of the company's shares, shall be disclosed. If there has been any substantial impact upon shareholders' equity or prices for the company's securities as a result of any litigation involving the company, the annual report shall disclose the facts in dispute, amount in dispute, commencement date of the dispute, main parties involved, and current status of the case as at the date of printing of the report: None.

6.14 Information security risk analysis and response measures

1. Information security

➤ Information security policy

For information security, the Company has been committed to improving various internal information security management mechanisms, conducting regular information security campaigns, and organizing employee information security education and training activities.

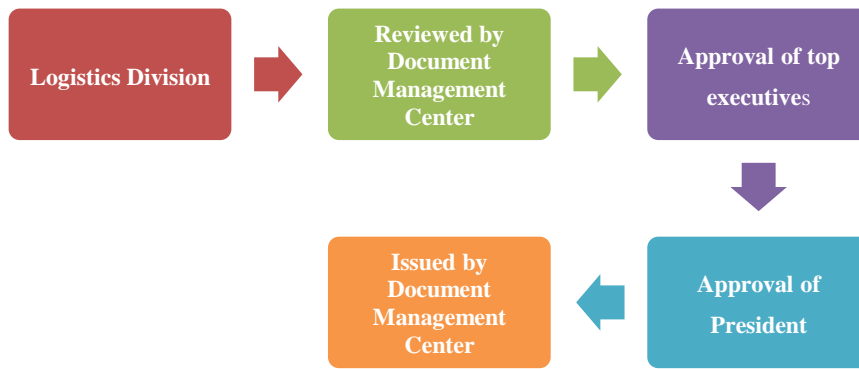
➤ Information security governance system

In order to improve information security management, the policies and regulations governing the information security are centralized to the information unit and then submitted for internal electronic approval. Before making a company-wide announcement, the policies and regulations are reviewed by the top executives and general manager and then submitted by the information unit through the internal electronic file system to the Document Management Center for approval.

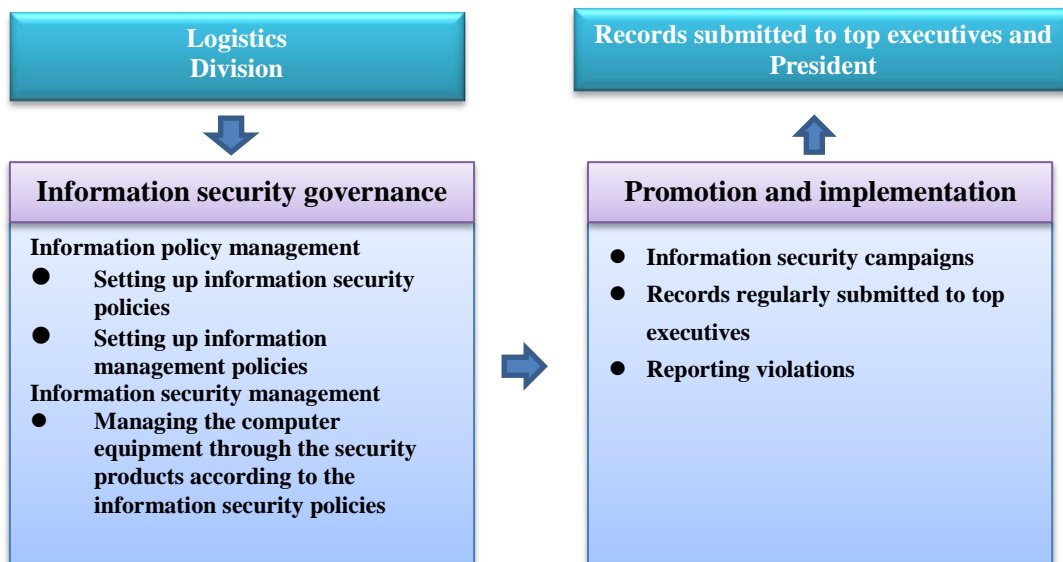
- Procedures for electronic approval system



- Procedures for electronic application



2.Information security operation mode



3.Strategies for information security

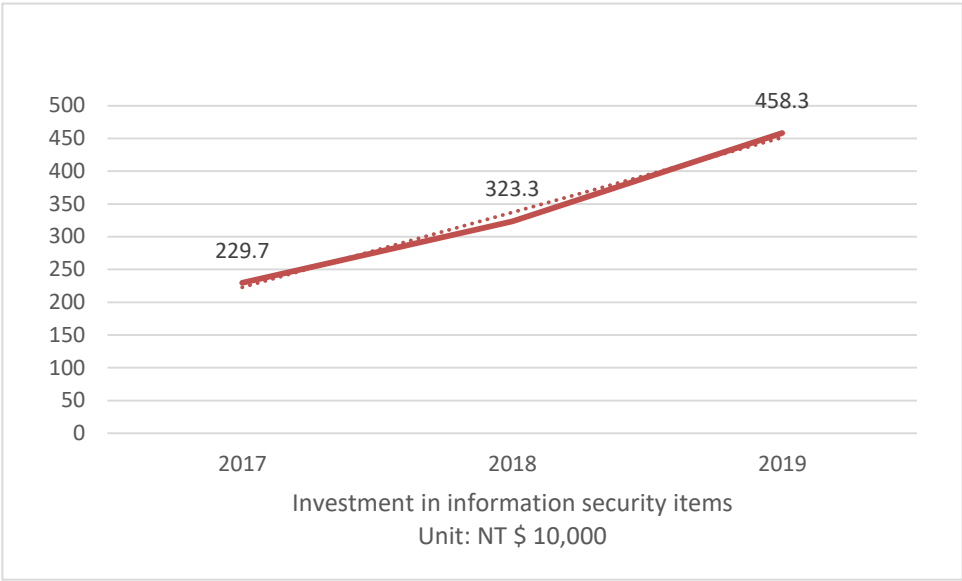
Strategies for information security		
Information security governance	Improving the management system	Improving the Company's information security management system, including improving the information security education and training provided for employees, updating the computer operating system, filtering malicious emails, and enhancing information security architecture design.
	Improving risk prevention and preventive measures	
Policy compliance	Setting up information security policies	In order to protect the hardware and software equipment of the Company and commercial and confidential data of customers and suppliers, the Company has set up relevant information security policies to provide guidelines for employees.
Utilization of technology	Firewall can put up a defence against the threats	Utilizing various security products (firewall, DLP equipment, network equipment) to monitor the behaviors concerning information security.
	Utilization of security products	
	Log data collection and analysis	

4.Education and training for information security

The Company has provided employee information security education and training in CTSP and HSP factories every year. The guest lecturers will elaborate on the hacker intrusion and fraud tricks to build awareness of prevention and promote the latest conception of information security, and in turn to mitigate the risk. For the Company, the heightened awareness of prevention can mean ensured rights and interests.

5.Investion

In order to protect the rights and interests of the Company and mitigate the risk of hacker invasion, the investment of the Company in the information security has significantly increased within the past three years.



6.15 Other material risk and mitigation efforts: None

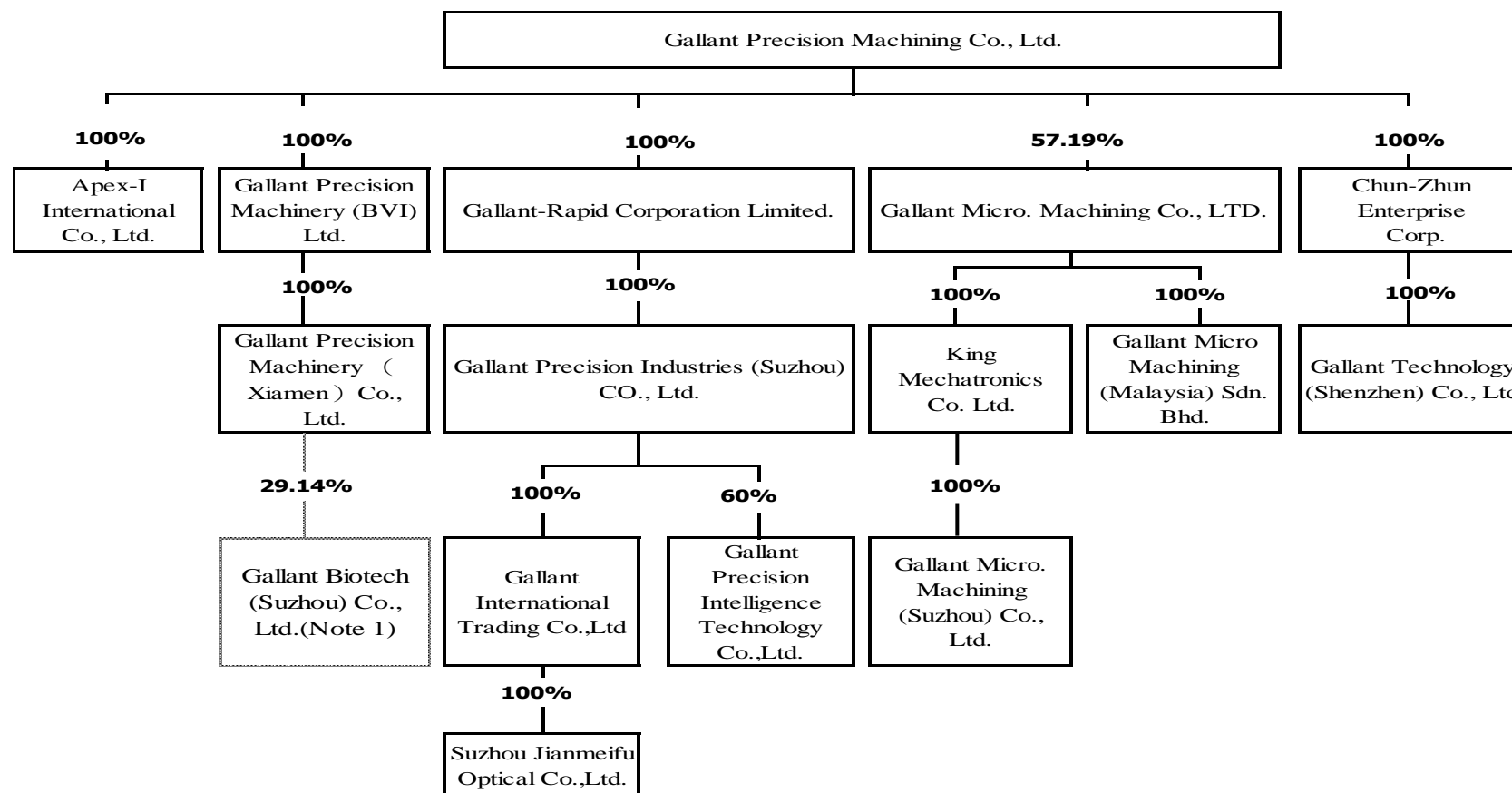
7.Other Material Events: None.

VIII. Special Disclosure

1. Summary of Affiliated Companies

1.1 Affiliated Companies Chart

As of Dec. 31, 2019



Note 1: 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.

1.2 GPM Affiliated Companies

As of Dec. 31, 2019. Unit: NT\$ thousand / Foreign Currency thousands

Company Name	Date of Incorporation	Address	Capital Stock	Major Business
APEX-I INTERNATIONAL CO., LTD	2001/04/13	No.10, Wenhua Rd., Hukou Township, Hsinchu County 303, Taiwan (R.O.C.)	NTD 66,000	Sale of Machinery Equipment and Parts
Gallant Micro. Machining Co., LTD.	2010/10/15	No.2-1, Minsheng St., Tucheng Dist., New Taipei City 236, Taiwan (R.O.C.)	NTD 282,765	Production and Sales of Precision Mold and other Parts
Gallant-Rapid Corporation Limited.	2000/06/15	P.O. Box 3321, Road Town, Tortola, British Virgin Islands	USD 13,560	Investment in Gallant Precision Industries (Suzhou) Co., Ltd.
Chun Zhun Enterprise Corporation.	2001/12/13	P.O. Box 3321, Road Town, Tortola, British Virgin Islands	USD 3,576	Investment in Chun-Zhun Precision Machining (Guang Zhou Nan Sha) Corporation and in Gallanat Technology (Shenzhen) Co., Ltd.
King Mechatronics Co., Ltd.	2001/09/24	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	USD 2,780	Investment in Gallant Micro. Machining (Suzhou) Co., Ltd.
Gallant Precision Machinery (BVI) Ltd.	2006/09/12	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	USD 20,289	Investment in Gallant Precision Machinery (Xiamen) Co., Ltd.
Gallant Precision Industries (Suzhou) CO., Ltd.	1995/04/19	1#Building , No.56 Songshan Road , New District , Suzhou , 215151 P.R.C.	USD 9,320	Production of optoelectronic products whole machine equipment, mechatronics equipments, and the manufacturing of its parts and accessories
Gallant Micro. Machining (Suzhou) Co., Ltd.	2003/01/28	A2, No. 1, Xiecun Road, Jinqiao Development Area, Mudu Town, Wuzhong District, Suzhou City	USD 4,550	Production and Sales of Precision Mold and other Parts
Gallant Precision Machinery (Xiamen)Co., Ltd.	2006/12/12	No. 1188, Fangshan South Road, Xiangan Industry District, Gaoxin District, Huoju, Xiamen, Fujian Province, China	USD 19,100	Production of optoelectronic products machining equipment and related parts and accessories
Gallant Technology (Shenzhen) Co., Ltd	2009/2/13	Floor 1, Building 28, Ji, Floor 1, Building 27, Zonghelou, Anle Industry, Guankouer Road, South End Of Nanshan District, Shenzhen City, China	USD 2,086	The Sales of Medical and Engineering Equipment
Gallant Micro Machining (Malaysia) Sdn. Bhd.	1996/10/08	B303-03-11, Krystal Point, Jalan Sultan Azlan Shah, 11900 Penang, Malaysia	MYR 500	The Import/Export and Buy/Sales of Semiconductor Machine and related Components and Parts
Gallant International Trading Co.,Ltd	2012/02/27	Room 501 · No.143 Heshan Road , New District , Suzhou , 215129 P.R.C.	CNY 7,000	Sales of mechatronics equipments
Suzhou Jianmeifu Optical Co.,Ltd.	2015/04/16	Room 501 · No.143 Heshan Road , New District , Suzhou , 215129 P.R.C.	CNY 4,000	The Wholesale and Retail of Contact Lens and related Medicare Products
Gallant Precision Intelligence Technology Co.,Ltd.	2017/03/06	1#Building , No.56 Songshan Road , New District , Suzhou , 215151 P.R.C.	CNY 10,000	Optical products whole machine equipment, mechatronics equipments, and the manufacturing of its parts and accessories

1.3 Data of Common Shareholders of Treated-as Controlled Companies and Affiliates:

None.

1.4 Business of GPM and its Affiliated Enterprises

1. Shareholders in Common of GPM and Its Subsidiaries with Deemed Control and Subordination:
Not applicable.

2. Business Scope of Its Subsidiaries:

- (1) GPM specializes in manufacturing and sales of semiconductor packaging front-end equipment and FPD production process equipment.
- (2) The affiliates involve in industries such as semiconductor packaging equipment, FPD production processing equipment, precision module and parts, production, trading and sales of precision components. There are also affiliates belong to investment or trading industry.
- (3) The affiliates are aiming at division of capacity, lowering cost, after sales service, product diversification, holding company purpose and operating diversification. For more details, please see Basic Information of Affiliates.

1.5 Directors, Supervisors and Presidents of GPM's Affiliated Companies

As of Dec. 31, 2019 ; Unit : Shares ; %

Company Name	Title	Name or Representative	Shares	% of Holding
APEX-I INTERNATIONAL CO., LTD	Chairman Director Director Supervisor	Gallant Precision Machining Co., Ltd.(GPM) Rep. : Jason Chen Gallant Precision Machining Co., Ltd. (GPM) Rep. : Nick Yen Gallant Precision Machining Co., Ltd. (GPM)Rep. : Y.C. Lee Gallant Precision Machining Co., Ltd. (GPM) Rep. : Rita Chen	GPM holds 6,600,000	100
Gallant Micro Machining Co., LTD.	Chairman Director Director Director Independent Director Independent Director Independent Director President	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Frank, Liang Hung-Ming Hsu Jung-Liang Chen Puo-Chen Chen Yen-Heng Lin Shingo Shih Bell Chen Hung-Ming Hsu	GPM holds 16,171,750 338,000 209,000 0 0 0 0 338,000	57.19 1.20 0.74 0 0 0 0 1.20
Gallant-Rapid Corporation Limited	Chairman	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Jason Chen	GPM holds 13,560,000	100
Chun Zhun Enterprise Corporation	Chairman Director	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Nick Yen Gallant Precision Machining Co., Ltd. (GPM) Rep. : Jason Chen	3,576,000	100
King Mechatronics Co., Ltd.	Director	Gallant Micro. Machining Co., LTD. (GMM) Rep. : Jung-Liang Chen	GMM holds 4,550,000	100
Gallant Precision Machinery (BVI) Ltd.	Chairman Director	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Jason Chen	GPM holds 20,289,000	100
Gallant Micro Machining (Suzhou) Co., Ltd.	Chairman Director Director Supervisor President	Jung-Liang Che Hung-Ming Hsu Nick Yen Wen Chin Chou Hung-Ming Hsu	King Mechatronics Co., Ltd. investment US\$2,780,645	100
Gallant Precision Machinery (Xiamen) Co., Ltd.	Chairman Director Director Supervisor	Jason Chen Ching-Hua Tsai Nick Yen Chia-Ju Tseng	Gallant Precision Machinery (BVI) Ltd. investment US\$19,100,000	100
Gallant Precision Industries (Suzhou) CO., Ltd.	Chairman Director Director Supervisor President	Jason Chen Nick Yen Hui-Ling Huang Rita Chen Jason Chen	Gallant-Rapid Corporation Limited. investment US\$13,560,000	100
Gallant Technology (Shenzhen) Co., Ltd	Chairman Director Director Supervisor	Nick Yen Shen-Shiou Sung Lin-Fa Ting Yu-Ching Chang	Chun Zhun Enterprise Corporation. investment US\$3,576,000	100
Gallant Micro Machining (Malaysia) Sdn. Bhd.	Director Director Director Director	Gallant Micro. Machining Co., LTD.(GMM) Rep. : HUNG-MING HSU Algo Pauline KY	GMM holds 500,000	100

Gallant International Trading Co.,Ltd	Chairman Director Director Supervisor	Jason Chen Nick Yen Xiao Lian Sandy Ning	Gallant Precision Industries (Suzhou) CO., Ltd. nvestment CNY\$7,000,000	100
Suzhou Jianmeifu Optical Co.,Ltd.	Chairman Director Director Supervisor	Nick Yen XIAO LIAN Jason Chen Sandy Ning	Gallant International Trading Co.,Ltd nvestment CNY\$4,000,000	100
Gallant Precision Intelligence Technology Co.,Ltd.	Chairman Director Director Supervisor President	Jason Chen SHIYI ZHANG Hui-Ling Huang Chia-Ju Tseng Shi-Yi Zhang	Gallant Precision Industries (Suzhou) CO., Ltd. nvestment CNY\$6,000,000	60

1.6 Summarized Operation Results of Affiliated Enterprises (As of Dec.31, 2019)

Unit: NT\$ thousands

Name of Corporation	Paid-in Capital	Total Assets	Total Liabilities	Net Worth	Net Operating Revenues	Operating Income	Net Income	Earning Per Share (NT\$)
Gallant-Rapid Corporation Limited.	459,050	202,002	0	202,002	0	-3,462	2,507	
Gallant Precision Industries (Suzhou) CO., Ltd.	189,474	234,154	59,078	175,077	99,185	-9,953	5,900	
Gallant International Trading Co.,Ltd	30,135	6,429	146	6,283	1,771	-236	-2,044	
Suzhou Jianmeifu Optical Co.,Ltd.	17,220	815	0	815	1	-1,616	-1,811	
Chun-Zhun Enterprise Corp.	125,671	10,223	0	10,223	0	-62	-1,328	
Gallant Technology (Shenzhen) Co., Ltd.	62,538	13,137	3,031	10,106	0	-2,326	-1,265	
Apex-I International Co., Ltd.	66,000	91,185	9,301	81,884	75,566	20,344	15,960	2.42
Gallant Micro Machining Co., LTD.	282,765	1,543,855	627,927	915,928	620,841	108,034	85,429	3.02
Gallant Micro Machining (Malaysia) Sdn. Bhd.	4,537	2,810	0	2,810	80	-56	-28	
KING MECHATRONICS CO.,LTD	93,144	738,977	30,910	708,067	46,149	1,574	6,937	
Gallant Micro Machining (Suzhou) Co., Ltd.	136,409	695,084	72,470	622,614	189,023	-4,102	2,291	
Gallant Precision Machinery (BVI) Ltd.	660,506	361,306	0	361,306	0	-138	-1,974	
Gallant Precision Machinery (Xiamen) Co., Ltd.	572,618	361,352	245	361,107	0	-566	-1,834	
Gallant Precision Intelligence Technology Co.,Ltd.	43,050	161,619	62,606	99,013	174,971	22,325	17,087	

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2019. The net sales, Income from operation, net income and EPS numbers were calculated using the average exchange rate in 2019.

(1) Exchange rate on 12/31, 2019: USD:NTD=1:29.98 ; RMB:NTD=1:4.305 ; MYR:NTD=1:7.033

(2) Average exchange rate for 2019: USD:NTD=1:30.9117 ; RMB:NTD=1:4.4722 ; MYR:NTD=1:7.176

1.7 Independent Auditor's Uni-President and Affiliated Enterprises Consolidated Financial Statements : Please refer to Page 164.

1.8 Affiliation Report: None.

2.Issuance of Private Placement of Securities:

None. (in the most recent fiscal year and up to the issue date of this Annual Report)

3. Holding or Disposition of GPM Stocks by Subsidiaries:

None (in the most recent fiscal year and up to the issue date of this Annual Report)

4. Other Necessary Supplement :None.

5.Special Notes

Any Events that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan : None.

GPM

Gallant Precision Machining Co., Ltd.

No.5-1, Innovation 1st Rd., Science Based Industrial Park, Hsinchu, 30076, Taiwan.

<http://www.gpmcorp.com.tw>



Gallant Precision Machining Co., Ltd.



Nick Yeh, Chairman