

**CHENG MEI MATERIALS TECHNOLOGY
CORPORATION (FORMERLY CHI MEI
MATERIALS TECHNOLOGY
CORPORATION) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2019 AND 2018**

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

Representation Letter

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

Very truly yours,

CHENG MEI MATERIALS TECHNOLOGY CORPORATION

By

Jau-Yang Ho, Chairman

March 25, 2020

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Cheng Mei Materials Technology Corporation Co., Ltd.

Opinion

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

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

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 of the current period are stated as follows:

Fair value measurement of investment in unlisted stock without active market

Description

In terms of the fair value of unlisted stock without active market, refer to Note 4(8) for the relevant accounting policies, Note 5(2) for the uncertainty of accounting estimates and assumptions, Note 6(3) for details of financial assets, and Note 12(3) for fair value information of financial instruments.

Unlisted stock investments without active market are recognised as financial assets at fair value through other comprehensive income, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

Given that the fair values of unlisted stocks without an active market were evaluated by an external appraiser commissioned by the management and the estimation involves multiple assumptions and a high degree of uncertainty that may affect the share price, we consider the fair value measurement of unlisted stocks without an active market one of the key audit matters.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Obtained the stock fair value appraisal report provided by the commissioned appraiser and evaluated the professional expertise, competence and objectivity of the appraiser.
2. Reviewed the content of the appraisal report to understand and assess the reasonableness of source of the information used, valuation method and conclusions.

Impairment assessment of property, plant and equipment

Description

In terms of property, plant and equipment, refer to Note 4(16) for the relevant accounting policies, Note 5(2) for uncertainty of accounting estimates and assumptions and Note 6(9) for account details.

Due to the recurring losses in recent years, the management assesses that there is an indication that the above assets are impaired and measures the recoverable amounts based on estimated future cash flows discounted at an appropriate discount rate. Given that the estimation of future cash flows rely on multiple assumptions that may affect the recoverable amounts, we consider impairment assessment as one of the key audit matters.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Obtained an understanding and assessed the estimation of future cash flows and checked whether the forecasting revenue in the following year used in the valuation model is consistent with the budget approved by the Board of Directors.
2. Obtained the source information referenced to determine the recoverable amounts, examined the management's intention and capability to perform the business plans and compared business performance during certain period after the balance sheet date based on the management's projection on expected income and expenses.
3. Verified that the discount rate uses reasonable parameters such as risk-free rate for cost of equity capital, industry risk coefficient, returns of similar assets and equity-to-capital ratio.
4. Checked the formula in the valuation model.

Other matter – Parent company only financial reports

We have audited the parent company only financial statements of Cheng Mei Materials Technology Corporation as at and for the years ended December 31, 2019 and 2018, on which we have expressed an unqualified opinion and an opinion with explanatory paragraphs on the significant uncertainty for operating as a going concern and other matter on these parent company only financial statements, respectively.

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 the audit committee, are responsible for overseeing the Group’s financial reporting process.

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

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Liu, Zi-Meng

Wu, Chien-Chih

For and on behalf of PricewaterhouseCoopers, Taiwan

March 25, 2020

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

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(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)	\$ 192,942	1	\$ 3,105,426	11
1110	Current financial assets at fair value through profit or loss	6(2)	571	-	84,525	-
1136	Current financial assets at amortised cost	6(4) and 8	202,507	1	1,313,826	5
1150	Notes receivable, net	6(5) and 8	-	-	186,620	1
1160	Notes receivable, net - related parties	6(5) and 7	-	-	18,806	-
1170	Accounts receivable, net	6(5)	417,955	3	4,199,939	16
1180	Accounts receivable, net - related parties	6(5) and 7	1,933,610	14	197,791	1
1200	Other receivables	6(7)	58,028	-	114,977	1
1210	Other receivables - related parties	7	805,391	6	88,256	-
1220	Current tax assets	6(26)	1,006	-	1,230	-
130X	Inventories	5 and 6(6)	2,146,069	15	3,883,297	14
1410	Prepayments		71,868	1	259,968	1
1479	Other current assets	6(12)	18,282	-	43,882	-
11XX	Total current assets		5,848,229	41	13,498,543	50
Non-current assets						
1517	Non-current financial assets at fair value through other comprehensive income	5, 6(3) and 7	169,740	1	215,727	1
1550	Investments accounted for using equity method	6(8)	3,638,064	26	-	-
1600	Property, plant and equipment	5, 6(9) and 8	4,358,111	31	10,693,045	39
1755	Right-of-use assets	6(10)	30,996	-	-	-
1780	Intangible assets	6(11)	32,087	-	91,846	-
1840	Deferred tax assets	6(26)	76,381	1	112,646	-
1915	Prepayments for equipment	7	50,775	-	1,567,878	6
1990	Other non-current assets	6(12)	9,124	-	1,054,232	4
15XX	Total non-current assets		8,365,278	59	13,735,374	50
1XXX	Total assets		\$ 14,213,507	100	\$ 27,233,917	100

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CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(5)(13) and 8	\$ 2,788,425	20	\$ 5,441,325	20
2120	Current financial liabilities at fair value through profit or loss	6(2)	-	-	2,681	-
2130	Contract liabilities	6(20) and 7	22,169	-	33,760	-
2150	Notes payable		-	-	156,037	-
2170	Accounts payable		1,072,008	8	2,350,148	9
2180	Accounts payable - related parties	7	1,240	-	375,639	1
2200	Other payables	6(14)	423,098	3	1,076,211	4
2230	Current tax liabilities	6(26)	-	-	147	-
2280	Current lease liabilities		55	-	-	-
2320	Current portion of long-term bank loans	6(15)	200,000	1	3,170,244	12
2399	Other current liabilities	6(31)	8,890	-	23,360	-
21XX	Total current liabilities		4,515,885	32	12,629,552	46
Non-current liabilities						
2540	Long-term borrowings	6(15)	-	-	202,996	1
2570	Deferred tax liabilities	6(26)	22,674	-	22,674	-
2580	Non-current lease liabilities		145	-	-	-
2645	Guarantee deposits		40	-	49	-
2670	Other non-current liabilities	6(31)	-	-	193,877	1
25XX	Total non-current liabilities		22,859	-	419,596	2
2XXX	Total liabilities		4,538,744	32	13,049,148	48
Equity attributable to the owners of the company						
Share capital						
3110	Common shares	6(17)	6,657,285	47	6,657,285	24
Capital surplus						
3200	Capital surplus	6(18)	944,026	7	851,689	3
Retained earnings						
3310	Legal reserve	6(19)	1,085,124	8	1,085,124	4
3320	Special reserve		447,530	3	246,224	1
3350	Unappropriated retained earnings		1,201,658	8	2,091,473	8
Other equity interest						
3400	Other equity interest		(676,861)	(5)	(447,530)	(2)
31XX	Total equity attributable to owners of the Company		9,658,762	68	10,484,265	38
36XX	Non-controlling interest	4(3) and 6(28)	16,001	-	3,700,504	14
3XXX	Total equity		9,674,763	68	14,184,769	52
Significant contingent liabilities and unrecognized contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		\$ 14,213,507	100	\$ 27,233,917	100

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for loss per share amount)

			Year ended December 31			
			2019		2018	
Items	Notes		AMOUNT	%	AMOUNT	%
4000 Net sales	6(20) and 7		\$ 14,896,250	100	\$ 12,767,162	100
5000 Cost of sales	6(6)(11)(24)(25) and 7		(14,326,772)	(96)	(12,205,208)	(96)
5900 Gross loss			<u>569,478</u>	<u>4</u>	<u>561,954</u>	<u>4</u>
Operating expenses	6(11)(24)(25) and 12(2)					
6100 Selling and marketing expenses		(	255,549)	(2)	309,435)	(2)
6200 General and administrative expenses		(	390,150)	(3)	314,634)	(2)
6300 Research and development expenses		(	459,168)	(3)	449,827)	(4)
6450 Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9			<u>85,223</u>	<u>1</u>	<u>94,926)</u>	<u>(1)</u>
6000 Total operating expenses		(	<u>1,019,644)</u>	<u>(7)</u>	<u>1,168,822)</u>	<u>(9)</u>
6900 Loss from operations		(	<u>450,166)</u>	<u>(3)</u>	<u>606,868)</u>	<u>(5)</u>
Non-operating income and expenses						
7010 Other income	6(21)		119,006	1	99,516	1
7020 Other gains and losses	6(2)(22)	(	73,582)	(1)	274,928)	(2)
7050 Finance costs	6(9)(23)	(	332,685)	(2)	290,580)	(2)
7060 Share of loss of associates and joint ventures accounted for using equity method	6(8)	(	<u>1,421)</u>	<u>-</u>	<u>-</u>	<u>-</u>
7000 Total non-operating income and expenses		(	<u>288,682)</u>	<u>(2)</u>	<u>465,992)</u>	<u>(3)</u>
7900 Loss before income tax		(	<u>738,848)</u>	<u>(5)</u>	<u>1,072,860)</u>	<u>(8)</u>
7950 Income tax benefit	6(26)	(	<u>21,598)</u>	<u>-</u>	<u>24,714)</u>	<u>-</u>
8200 Loss for the period year		(	<u>\$ 760,446)</u>	<u>(5)</u>	<u>\$ 1,048,146)</u>	<u>(8)</u>
Other comprehensive income (loss)						
Items that may not be reclassified subsequently to profit or loss						
8316 Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(3)	(	<u>\$ 58,915)</u>	<u>(1)</u>	<u>\$ 124,273)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss						
8361 Exchange differences on translating of foreign financial statments		(	<u>308,425)</u>	<u>(2)</u>	<u>141,173)</u>	<u>(1)</u>
8300 Total other comprehensive loss		(	<u>\$ 367,340)</u>	<u>(3)</u>	<u>\$ 265,446)</u>	<u>(2)</u>
8500 Total comprehensive loss for the year		(	<u>\$ 1,127,786)</u>	<u>(8)</u>	<u>\$ 1,313,592)</u>	<u>(10)</u>
Net loss attributable to						
8610 Owners of the Company		(	<u>\$ 688,559)</u>	<u>(5)</u>	<u>\$ 655,080)</u>	<u>(5)</u>
8620 Non-controlling interests		(	<u>71,887)</u>	<u>-</u>	<u>393,066)</u>	<u>(3)</u>
Net loss		(	<u>\$ 760,446)</u>	<u>(5)</u>	<u>\$ 1,048,146)</u>	<u>(8)</u>
Total comprehensive loss attributable to						
8710 Owners of the Company		(	<u>\$ 917,840)</u>	<u>(7)</u>	<u>\$ 856,386)</u>	<u>(6)</u>
8720 Non-controlling interests		(	<u>209,946)</u>	<u>(1)</u>	<u>457,206)</u>	<u>(4)</u>
Net loss		(	<u>\$ 1,127,786)</u>	<u>(8)</u>	<u>\$ 1,313,592)</u>	<u>(10)</u>
Loss per share	6(27)					
9750 Basic loss per share		(	<u>\$ 1.03)</u>	<u>(</u>	<u>\$ 0.98)</u>	<u>(</u>
9850 Diluted loss per share		(	<u>\$ 1.03)</u>	<u>(</u>	<u>\$ 0.98)</u>	<u>(</u>

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

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

	Equity attributable to owners of the parent										Non-controlling interest	Total equity
	Notes	Share capital - common shares	Capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Other equity interest		Total		
									Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income			
Year ended December 31, 2018												
Balance at January 1, 2018		\$ 6,657,285	\$ 856,768	\$ 1,085,124	\$ 202,973	\$ 2,789,804	\$ 246,224	\$ -	\$ 11,345,730	\$ 1,935,541	\$ 13,281,271	
Net loss for the year		-	-	-	-	(655,080)	-	-	(655,080)	(393,066)	(1,048,146)	
Other comprehensive loss for the year	6(3)	-	-	-	-	-	(77,033)	(124,273)	(201,306)	(64,140)	(265,446)	
Total comprehensive loss for the year		-	-	-	-	(655,080)	(77,033)	(124,273)	(856,386)	(457,206)	(1,313,592)	
Distribution of 2017 earnings												
Special reserve	6(19)	-	-	-	43,251	(43,251)	-	-	-	-	-	
Difference between consideration and carrying amount of the subsidiaries' disposal	6(18)(28)	-	3,714	-	-	-	-	-	3,714	2,286	6,000	
Changes in ownership interests in subsidiaries	6(18)(28)	-	(8,793)	-	-	-	-	-	(8,793)	2,219,883	2,211,090	
Balance at December 31, 2018		\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 246,224	\$ 2,091,473	\$ 323,257	(\$ 124,273)	\$ 10,484,265	\$ 3,700,504	\$ 14,184,769	
Year ended December 31, 2018												
Balance at January 1, 2019		\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 246,224	\$ 2,091,473	\$ 323,257	(\$ 124,273)	\$ 10,484,265	\$ 3,700,504	\$ 14,184,769	
Net loss for the year		-	-	-	-	(688,559)	-	-	(688,559)	(71,887)	(760,446)	
Other comprehensive loss for the year	6(3)	-	-	-	-	-	(170,366)	(58,915)	(229,281)	(138,059)	(367,340)	
Total comprehensive loss for the year		-	-	-	-	(688,559)	(170,366)	(58,915)	(917,840)	(209,946)	(1,127,786)	
Distribution of 2018 earnings												
Special reserve	6(19)	-	-	-	201,306	(201,306)	-	-	-	-	-	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	6(3)	-	-	-	-	50	-	(50)	-	-	-	
Changes in ownership interests in subsidiaries	6(18)(28)	-	92,337	-	-	-	-	-	92,337	780,235	872,572	
Decrease in non-controlling interests	6(28)	-	-	-	-	-	-	-	-	(4,254,792)	(4,254,792)	
Balance at December 31, 2019		\$ 6,657,285	\$ 944,026	\$ 1,085,124	\$ 447,530	\$ 1,201,658	\$ 493,623	(\$ 183,238)	\$ 9,658,762	\$ 16,001	\$ 9,674,763	

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(\$ 738,848)	(\$ 1,072,860)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(9)(10)(24)	968,586	1,096,227
Amortization expense	6(11)(24)	46,828	54,051
Expected credit (gain) loss	12(2)	(85,223)	94,926
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	6(22)	35,062	(5,121)
Interest expense	6(23)	332,685	290,580
Interest income	6(21)	(32,748)	(28,568)
Dividend income	6(2)(21)	(712)	(430)
Share of loss of associates and joint ventures accounted for using equity method	6(8)	1,421	-
Loss on disposal of property, plant and equipment	6(22)	5,294	7,315
Property, plant and equipment transferred to expenses		-	8,221
Loss on disposal of investments	6(22)(28)	(140,450)	-
Impairment loss on financial assets	6(22)	49,000	-
Gain arising from lease modification	6(10)(22)	(110)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Current financial assets at fair value through profit or loss		112,056	(55,936)
Notes receivable		43,131	297,772
Notes receivable - related parties		18,806	(14,241)
Accounts receivable		2,091,097	(1,138,634)
Accounts receivable - related parties	(	1,964,923)	(197,791)
Other receivables		127,047	116,393
Other receivables due from related parties		33,702	-
Inventories		658,092	(1,600,587)
Prepayments	(	281,085)	354,227
Other current assets	(	182,846)	64,639
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss	(	65,845)	(23,861)
Current contract liabilities	(	11,591)	24,281
Notes payable	(	156,037)	23,574
Accounts payable	(	421,940)	375,797
Accounts payable - related parties		660,394	375,639
Other payables	(	70,391)	129,773
Other current liabilities	(	1,899)	(1,729)
Cash inflow (outflow) generated from operations		1,028,553	(826,343)
Interest received		40,362	26,538
Dividends received		712	430
Interest paid	(	345,677)	(281,652)
Income tax paid	(	1,389)	(10,985)
Income tax refund receivable		469	3
Net cash flows from (used in) operating activities		723,030	(1,092,009)

(Continued)

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current financial assets at fair value through other comprehensive income	12(3)	(\$ 14,478)	(\$ 340,000)
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3) and 12(3)	1,550	-
Decrease in current financial assets at amortised cost		(48,130)	(1,037,562)
Increase in other receivables		-	(68,681)
Increase in other receivables - related parties		(750,837)	(167,329)
Acquisition of property, plant and equipment	6(29)	(3,134,115)	(1,346,543)
Proceeds from disposal of property, plant and equipment		2,240	75,253
Acquisition of intangible assets	6(11)	(15,944)	(40,970)
Increase in equipment prepayments		(117,442)	(1,450,214)
Decrease in refundable deposits		-	2,834
Increase in other non-current assets		(24,109)	(587,008)
Proceeds from disposal of subsidiaries	6(28)	(426,496)	-
Net cash flows used in investing activities		(4,527,761)	(4,960,220)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans	6(30)	12,051,891	17,362,686
Repayments of short-term loans	6(30)	(13,492,388)	(15,798,012)
Decrease in short-term notes and bills payable	6(30)	-	(100,000)
Payments of principal portion of lease liabilities	6(30)	(14,226)	-
Proceeds from long-term debt	6(30)	7,598,783	1,237,006
Repayments of long-term debt	6(30)	(6,500,009)	(606,117)
Decrease in guarantee deposits received	6(30)	(9)	(122)
(Decrease) increase in other non-current liabilities		(17,969)	193,877
Proceeds from disposal of ownership interests in subsidiaries (without losing control)	6(28)	-	6,000
Change in non-controlling interests	6(28)	872,572	2,211,090
Net cash flows from financing activities		498,645	4,506,408
Effect of exchange rate changes on cash and cash equivalents		393,602	153,951
Net decrease in cash and cash equivalents		(2,912,484)	(1,391,870)
Cash and cash equivalents at beginning of year	6(1)	3,105,426	4,497,296
Cash and cash equivalents at end of year	6(1)	\$ 192,942	\$ 3,105,426

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. HISTORY AND ORGANISATION

- (1) Cheng Mei Materials Technology Corporation (the “Company”) was incorporated under the provisions of the Company Act of the Republic of China (R.O.C.) on May 17, 2005. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).
- (2) On October 24, 2011, the Company’s shares were listed on the Taiwan Stock Exchange (TWSE). Since September 2017, the Company’s common shares have been traded on the Singapore Exchange Limited (SGX) under the symbol “US16412W1071” in the form of global depositary shares.
- (3) The shareholders at the shareholders’ meeting approved the change of name of the Company from Chi Mei Materials Technology Corporation to Cheng Mei Materials Technology Corporation on June 22, 2018.

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

These consolidated financial statements were authorised for issuance by the Board of Directors on March 18, 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 the 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
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

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 \$310,076, increased 'lease liability' by \$58,020 and decreased prepaid lease by \$252,056 (which is shown as "other current assets" amounting to \$5,648 and "other non-current assets" amounting to \$246,408) 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 a 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 are treated as short-term leases and accordingly, rent expense of \$3,526 was recognised for the year ended December 31, 2019.
 - (d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
- D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.50% to 4.96%.
- E. The Group recognised 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 recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$ 63,851
Less: Short-term leases	(2,033)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	\$ 61,818
Incremental borrowing interest rate at the date of initial application	1.50%~4.96%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	\$ 58,020

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

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

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

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

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

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

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

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance 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", 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, the consolidated financial statements have been prepared under the historical cost convention:
- (a) Financial assets and liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Financial assets at fair value through other comprehensive income.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2019	December 31, 2018	
Cheng Mei Materials Technology Corporation ("CMMT")	Cheng Mei Materials Technology (SAMOA) Corp. ("CMMTS")	Investment Company	100%	100%	-
	(Formerly Chi Mei Materials Technology (SAMOA) Corp.) ("CMMTS")				
	CM Visual Technology Corporation ("CMVT")	Electronic component manufacturing and selling	68.33%	68.33%	-
	(Formerly Chi Mei Visual Technology Corporation) ("CMVT")				
	Chi Mei Materials Technology Investment Co., Ltd. ("CMMTI")	Investment Company	100%	100%	-
	Cheng Hui Investment Co., Ltd. ("CHI")	Investment Company	100%	100%	-
CMMTS	(Formerly Mao Yu Investment Co., Ltd.)				
	Cheng Hui Trading Co., Ltd. ("CHT")	Trading business	100%	100%	-
	(Formerly Mao Fong Trading Co., Ltd.)				
CMMTI	Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacturing and selling	100%	100%	-
	(Formerly Ningbo Chi Mei Materials Technology Co., Ltd.) ("NBCMMT")				
KSCMMT	Kunshan Chimei Materials Technology Co., Ltd. ("KSCMMT")	Electronic component manufacturing and selling	-	49.5%	Note 1
CHI	Kunshan Chimei Materials Trading Corp. ("KSCMS")	Trading business	-	100%	Note 2
	Xi'an Jinyahongtai New Materials Technology Co., Ltd. ("XJHM")	Electronic component manufacturing and selling	-	100%	Note 2
CHT	CMVT	Electronic component manufacturing and selling	11%	11%	Note 3
Mao Fong Group	Mao Fong Group Co., Ltd. (Mao Fong Group)	Investment Company	100%	-	Note 4
	Kunshan Xin Mao Fong International Trading Co., Ltd. ("KSMF")	Trading business	100%	-	Note 5

Note 1: The Group holds 49.5% of the shares of KSCMMT, and the Group is the single largest shareholder. According to the agreement among shareholders, the Group is entitled to appoint a Chairman and recommend a person for the position of General Manager. Because the Group has control over KSCMMT, KSCMMT is classified as a subsidiary. In October 2019 and December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. Therefore, KSCMMT is no longer included in the Group's consolidated financial statements. Please refer to Note 6(28) for details.

Note 2: Due to KSCMS and XJHM both were the subsidiaries of KSCMMT, the Group lost its control over KSCMS and XJHM when the control over KSCMMT was lost. Therefore, KSCMS and XJHM are no longer included in the Group's consolidated financial statements.

Note 3: CHI disposed of a portion of its shareholding in CMVT for NT\$6,000 thousand in January 2018, reducing its continuing interest from 13% to 11%, refer to Note 6(28).

Note 4: The Group set up the company in August 2018 and it paid the capital for shares in February 2019.

Note 5: The Group set up the company in November 2018, and it paid the capital for shares in February 2019.

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 \$16,001 and \$3,700,504, respectively. The information on non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest	
		December 31, 2018	
		Amount	Ownership (%)
KSCMMT	China	\$ 3,668,813	50.5

Summarised financial information of the subsidiaries:

Balance sheets

	KSCMMT
	December 31, 2018
Current assets	\$ 5,817,921
Non-current assets	8,696,270
Current liabilities	(7,052,337)
Non-current liabilities	(196,877)
Total net assets	<u>\$ 7,264,977</u>

Statement of comprehensive income

	KSCMMT
	Year ended December 31, 2018
Revenue	\$ 4,907,223
Loss for the year	(\$ 765,974)
Total comprehensive loss for the year	(\$ 765,974)
Comprehensive loss attributable to non-controlling interest	(\$ 387,113)

Statement of cash flows

	KSCMMT
	Year ended December 31, 2018
Net cash used in operating activities	(\$ 349,360)
Net cash used in investing activities	(3,946,904)
Net cash provided by financing activities	4,723,013
Increase in cash and cash equivalents	\$ 426,749

(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 and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, 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 other foreign exchange gain and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) 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.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at 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.
- 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:
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.

(9) 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.

(10) 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.

(11) Impairment of financial assets

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

(12) Derecognition of financial assets

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

(13) Leasing arrangements (lessor) – operating leases

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.

(14) Inventories

Inventories are stated at the lower of cost and net realisable 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 (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) 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 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised 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 recognise 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 do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised 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. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised 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 retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(16) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. 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	14 ~ 25 years
Machinery and equipment	4 ~ 10 years
Office equipment	3 ~ 5 years
Factory equipment	5 ~ 10 years
Other equipment	3 ~ 10 years

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

Effective 2019

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

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable.

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

C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term.

When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(18) Operating leases (lessee)

Prior to 2018

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.

(19) Intangible assets

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

B. Internally generated intangible assets—research and development expenditures

- (a) Research expenditures are recognised as an expense as incurred.
- (b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:
 - i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - ii. An entity intends to complete the intangible asset and use or sell it;
 - iii. An entity has the ability to use or sell the intangible asset;
 - iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
 - v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
 - vi. The expenditure attributable to the intangible asset during its development can be reliably measured.
- (c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 3 years.
- C. Goodwill arises in a business combination accounted for by applying the acquisition method.
- D. Core technology and licenses and franchises, are amortised on a straight-line basis over their estimated useful lives of 3~10 and 5 years, respectively.

(20) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(21) Borrowings

Borrowings comprise long-term and short-term bank borrowings and other short-term loans. 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.

(22) 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.

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

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

(24) Derecognition of financial liabilities

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

(25) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(26) Employee benefits

A. Short-term employee benefits

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

B. Pensions

Defined contribution plans

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

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(27) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 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 recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred 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 realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(28) 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.

(29) Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from the sale of polarizing film. Sales of polarizing film are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped (according to the terms of trade), because it is the time when the customer has full discretion over the manner of distribution and the price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

(30) Government grants

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

(31) 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 Board of Directors 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

A. Revenue recognition on a net/gross basis

The Group determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for the other party to provide those goods or services (i.e. the Group is an agent) based on the transaction model and its economic

substance. The Group is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Group recognises revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Group is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Group recognises revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services.

Indicators that the Group controls the good or service before it is provided to a customer include the following:

- (a) The Group is primarily responsible for the provision of goods or services;
- (b) The Group assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer; and
- (c) The Group has discretion in establishing prices for the goods or services.

B. Control over subsidiaries

Note 4(3) describes that Kunshan Chimei Materials Technology Corp. (“KSCMMT”) is a subsidiary of the Group although the Group only holds less than half of the voting power of KSCMMT. After considering the Group’s absolute size of holding in KSCMMT and the contractual arrangements between the Group and other investors, and other factors, management concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of KSCMMT, and therefore, the Group has control over KSCMMT.

(2) Critical accounting estimates and assumptions

A. Evaluation of inventories

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

As of December 31, 2019, the carrying amount of inventories was \$2,146,069.

B. Financial assets-fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies’ recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2019, the carrying amount of unlisted stocks without active market was \$169,740.

C. Impairment of property, plant and equipment

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics.

Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

As of December 31, 2019, the Group recognised property, plant and equipment, net of impairment loss, amounting to \$4,358,111.

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	\$ 428	\$ 851
Checking accounts and demand deposits	106,242	2,865,537
Time deposits	86,272	239,038
	<u>\$ 192,942</u>	<u>\$ 3,105,426</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. Information about cash and cash equivalents that were pledged to others as collaterals is provided in Note 8.

C. Time deposits were classified as cash and cash equivalents with original maturities of less than three months. The Group has no time deposits pledged to others.

(2) Financial instruments at fair value through profit or loss

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	\$ -	\$ 84,127
Derivatives	571	11,897
Debt instruments	3,500	2,500
	<u>4,071</u>	<u>98,524</u>
Valuation adjustment	(3,500)	(13,999)
	<u>\$ 571</u>	<u>\$ 84,525</u>
Current items:		
Financial liabilities held for trading		
Short selling	\$ -	\$ 2,725
Valuation adjustment	-	(44)
	<u>\$ -</u>	<u>\$ 2,681</u>

A. Amounts recognised in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are listed below:

	Year ended December 31, 2019	Year ended December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 23,719	(\$ 12,438)
Derivatives	8,595	41,457
Debt instruments	(3,500)	-
Financial liabilities held for trading		
Derivatives	(63,164)	(23,468)
	<u>(\$ 34,350)</u>	<u>\$ 5,551</u>

B. The Group entered into contracts relating to derivative financial assets and liabilities which were not accounted for under hedge accounting. The information is listed below:

	December 31, 2019		December 31, 2018	
Derivative Financial Assets	Contract Amount (notional principal)	Contract Period	Contract Amount (notional principal)	Contract Period
Current items:				
Foreign exchange option agreement	-	-	USD 3,000 thousand (BUY)	2018.12~2019.3
Forward foreign exchange contracts	JPY 109,340 thousand	2019.12 ~ 2020.1	-	-
Forward foreign exchange contracts	JPY 218,600 thousand	2019.12 ~ 2020.1	-	-

The Group entered into foreign exchange option contracts and forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies whose values would be affected by the exchange rate fluctuations. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. Information relating to credit risk of financial assets at fair value through profit or loss are provided in Note 12(2).

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

Items	December 31, 2019	December 31, 2018
Non-current items:		
Equity instruments		
Unlisted stocks	\$ 352,978	\$ 340,000
Valuation adjustment	(183,238)	(124,273)
	<u>\$ 169,740</u>	<u>\$ 215,727</u>

- A. The Group has elected to classify equity instruments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$169,740 and \$215,727 as at December 31, 2019 and 2018, respectively.
- B. In response to the modified investment strategy, the Group sold \$1,550 of unlisted stocks at fair value and resulted in cumulative gains on disposal of \$50 for the year ended December 31, 2019.
- C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	Year ended December 31, 2019	Year ended December 31, 2018
Equity instruments at fair value through other comprehensive income		
Fair value change recognised in other comprehensive income	(\$ 58,915)	(\$ 124,273)
Cumulative gains reclassified to retained earnings due to derecognition	\$ 50	\$ -

- D. The Group has no financial assets at fair value through other comprehensive income pledged to others.

(4) Financial assets at amortised cost

Items	December 31, 2019	December 31, 2018
Current items:		
Escrow demand deposits	\$ 60,061	\$ -
Pledged deposit	7,000	1,253,226
Investment in debt instrument without active market	49,000	50,000
Time deposits with original maturities of more than three months	135,446	10,600
	251,507	1,313,826
Less : Accumulated impairment	(49,000)	-
	\$ 202,507	\$ 1,313,826

- A. The Group entered into a concert cooperation agreement with a partner company in August 2018. The contract is effective from August 2018 to the completion of entertainment activities. The investment amount was \$50,000. The Group collected the return on the investment amounting to \$1,000 in January 2019 and recognised the impairment loss of \$49,000 for the year ended December 31, 2019 as the Group assessed that the cooperation has no future recoverable amount. The Group has carried out the relevant legal action.
- B. 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 amortised cost held by the Group was \$202,507 and \$1,313,826, respectively.

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

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

(5) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable (including related parties)	\$ -	\$ 205,426
Less: Allowance for uncollectible accounts	-	-
	<u>\$ -</u>	<u>\$ 205,426</u>
Accounts receivable (including related parties)	\$ 2,359,233	\$ 4,399,358
Less : Allowance for uncollectible accounts	(7,668)	(1,628)
	<u>\$ 2,351,565</u>	<u>\$ 4,397,730</u>

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

	December 31, 2019		December 31, 2018	
	Notes receivable	Accounts receivable	Notes receivable	Accounts receivable
Not past due	\$ -	\$ 2,348,091	\$ 205,426	\$ 4,394,899
Up to 30 days	-	8,813	-	4,459
31 to 60 days	-	359	-	-
61 to 90 days	-	568	-	-
Over 91 days	-	1,402	-	-
	<u>\$ -</u>	<u>\$ 2,359,233</u>	<u>\$ 205,426</u>	<u>\$ 4,399,358</u>

The above ageing analysis was based on past due date.

B. As of December 31, 2019, December 31, 2018, and January 1, 2018, the balances of receivables (including notes receivable) from contracts with customers amounted to \$2,359,233, \$4,604,784 and \$3,551,890, respectively.

C. As of December 31, 2019 and 2018, the Group had outstanding discounted notes receivable amounting to \$0 and \$164,177, respectively. However, in general, the Group does not expect that the drawers of the notes would refuse to pay for the notes at maturity. The liabilities arising on discounted notes receivable were presented as short-term borrowings.

D. The Group does not hold any collateral as guarantee for notes and accounts receivable.

E. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$0 and \$205,426; \$2,351,565 and \$4,397,730, respectively.

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

(6) Inventories

December 31, 2019			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,366,158	(\$ 193,991)	\$ 1,172,167
Work in progress	553,389	(90,795)	462,594
Finished goods	868,722	(357,414)	511,308
Commodities	76,750	(76,750)	-
	<u>\$ 2,865,019</u>	<u>(\$ 718,950)</u>	<u>\$ 2,146,069</u>
December 31, 2018			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,274,630	(\$ 224,806)	\$ 2,049,824
Work in progress	1,372,903	(139,713)	1,233,190
Finished goods	1,265,703	(670,756)	594,947
Commodities	83,272	(77,936)	5,336
	<u>\$ 4,996,508</u>	<u>(\$ 1,113,211)</u>	<u>\$ 3,883,297</u>

The cost of inventories recognized as expense for the years ended December 31, 2019 and 2018, were \$14,326,772 and \$12,205,208, respectively, including the amount of \$265,587 and \$332,579, respectively, that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of the clearance of inventories that was already provisioned loss in market value decline.

(7) Other receivables

	December 31, 2019	December 31, 2018
Financing provided to others(Note)	\$ -	\$ 68,681
Others	58,028	46,296
	<u>\$ 58,028</u>	<u>\$ 114,977</u>

Note : This represents the accounts receivable which resulted from the triangular trade conducted in KSCMS. The Group regarded it as a loan to the companies with business relationship.

(8) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Associates:		
KSCMMT	<u>\$ 3,638,064</u>	<u>\$ -</u>

A. In October 2019 and December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. However, the Group still has significant influence over KSCMMT, refer to Note 6(28).

B. Associates

(a) The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio	Nature of relationship	Methods of measurement
		December 31, 2019		
KSCMMT	China	38.4%	Strategic investment	Equity method

(b) The summarised financial information of the associates that are material to the Group is as follows:

Balance sheet

	KSCMMT
	December 31, 2019
Current assets	\$ 6,925,069
Non-current assets	11,299,643
Current liabilities	(6,092,394)
Non-current liabilities	(2,658,193)
Total net assets	\$ 9,474,125
Share in associate's net assets	\$ 3,638,064

Statement of comprehensive income

	KSCMMT
	Year ended December 31, 2019
Revenue	\$ 7,102,299
Loss for the period from discontinued operations	(\$ 108,111)

(c) The share of loss of associates and joint ventures accounted for using equity method for the year ended December 31, 2019 was \$1,421.

(9) Property, plant and equipment

2019

	Construction in progress and equipment under acceptance						Total
	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	
<u>At January 1</u>							
Cost	\$ 1,428,543	\$ 7,524,465	\$ 7,212,313	\$ 72,305	\$ 4,682,095	\$ 341,469	\$ 21,431,377
Accumulated depreciation and impairment	-	(2,025,767)	(4,925,982)	(49,297)	(3,495,367)	(241,919)	(10,738,332)
	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 10,693,045</u>
Opening net book amount as at January 1	\$ 1,428,543	\$ 5,498,698	\$ 2,286,331	\$ 23,008	\$ 1,186,728	\$ 99,550	\$ 10,693,045
Additions	-	8,992	36,172	8,054	33,359	10,783	3,355,327
Disposals	-	-	(320)	(2,548)	(473)	(4,193)	(7,534)
Reclassifications	-	(88,076)	39,148	-	(292,474)	6,221	2,413,502
Depreciation charge	-	(324,894)	(389,857)	(9,625)	(184,270)	(35,409)	(944,055)
Decrease in consolidated entities	(2,914,463)	(1,311,165)	(1,311,165)	(5,821)	(491,142)	(54,471)	(10,719,414)
Net exchange differences	-	(119,708)	(56,926)	(278)	(19,169)	(2,194)	(432,760)
Closing net book amount as at December 31	<u>\$ 1,428,543</u>	<u>\$ 2,060,549</u>	<u>\$ 603,383</u>	<u>\$ 12,790</u>	<u>\$ 232,559</u>	<u>\$ 20,287</u>	<u>\$ 4,358,111</u>
<u>At December 31</u>							
Cost	\$ 1,428,543	\$ 3,906,315	\$ 5,501,783	\$ 66,460	\$ 3,663,079	\$ 251,853	\$ 14,818,033
Accumulated depreciation and impairment	-	(1,845,766)	(4,898,400)	(53,670)	(3,430,520)	(231,566)	(10,459,922)
	<u>\$ 1,428,543</u>	<u>\$ 2,060,549</u>	<u>\$ 603,383</u>	<u>\$ 12,790</u>	<u>\$ 232,559</u>	<u>\$ 20,287</u>	<u>\$ 4,358,111</u>

2018

	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>								
Cost	\$ 1,428,543	\$ 7,263,777	\$ 6,799,675	\$ 70,449	\$ 4,638,174	\$ 337,523	\$ 409,419	\$ 20,947,560
Accumulated depreciation and impairment	-	(1,434,198)	(4,594,076)	(49,403)	(3,212,644)	(213,503)	(274,041)	(9,777,865)
	<u>\$ 1,428,543</u>	<u>\$ 5,829,579</u>	<u>\$ 2,205,599</u>	<u>\$ 21,046</u>	<u>\$ 1,425,530</u>	<u>\$ 124,020</u>	<u>\$ 135,378</u>	<u>\$ 11,169,695</u>
Opening net book amount	\$ 1,428,543	\$ 5,829,579	\$ 2,205,599	\$ 21,046	\$ 1,425,530	\$ 124,020	\$ 135,378	\$ 11,169,695
as at January 1								
Additions	-	96,426	160,669	11,657	52,331	17,120	463,959	802,162
Disposals	-	(7,754)	(72,729)	(161)	(1,329)	(595)	-	(82,568)
Reclassifications	-	(14,143)	446,345	-	28,602	(1,606)	(425,580)	33,618
Depreciation charge	-	(333,431)	(415,589)	(9,356)	(300,010)	(37,841)	-	(1,096,227)
Net exchange differences	-	(71,979)	(37,964)	(178)	(18,396)	(1,548)	(3,570)	(133,635)
Closing net book amount	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 170,187</u>	<u>\$ 10,693,045</u>
as at December 31								
<u>At December 31</u>								
Cost	\$ 1,428,543	\$ 7,524,465	\$ 7,212,313	\$ 72,305	\$ 4,682,095	\$ 341,469	\$ 170,187	\$ 21,431,377
Accumulated depreciation and impairment	-	(2,025,767)	(4,925,982)	(49,297)	(3,495,367)	(241,919)	-	(10,738,332)
	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 170,187</u>	<u>\$ 10,693,045</u>

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

	Year ended December 31, 2019	Year ended December 31, 2018
Amount capitalised	\$ 70,625	\$ 8,799
Range of the interest rates for capitalisation	0.29%~5.58%	2.00%~2.69%

- B. As of December 31, 2019 and 2018, the accumulated impairment of property, plant and equipment was \$258,433 and \$268,459, respectively, and the reportable segment was in Mainland China.
- C. The above property, plant and equipment were used for the operations of the Group and were not available for lease.
- D. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(10) Leasing arrangements – lessee

Effective 2019

- A. The Group leases various assets including land, buildings and other equipment. Rental contracts are typically made for periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes and parts of lease are not allowed to be subletted, leased, sold or any ways for others to use.
- B. Short-term leases with a lease term of 12 months or less comprise of buildings and multifunction printers.
- C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	Year ended December 31, 2019 Carrying amount	Year ended December 31, 2019 Depreciation charge
Land	\$ 30,709	\$ 5,648
Buildings	89	18,828
Other equipment	198	55
	<u>\$ 30,996</u>	<u>\$ 24,531</u>

- D. For the year ended December 31, 2019, the additions to right-of-use assets was \$30,970.
- E. The information on income and expense accounts relating to lease contracts is as follows:

	Year ended December 31, 2019
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 2,355
Expense on short-term lease contracts	18,173
Gain arising from lease modification	110

- F. For the year ended December 31, 2019, the Group's total cash outflow for leases was \$34,754.

(11) Intangible assets

	2019				
	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1</u>					
Cost	\$ 135,585	\$ 67,622	\$ 8,056	\$ 9,200	\$ 220,463
Accumulated amortisation and impairment	(87,104)	(33,233)	-	(8,280)	(128,617)
	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>
At January 1	\$ 48,481	\$ 34,389	\$ 8,056	\$ 920	\$ 91,846
Additions-acquired separately	15,944	-	-	-	15,944
Reclassifications	990	-	-	-	990
Amortisation charge	(34,334)	(11,574)	-	(920)	(46,828)
Decrease in consolidated entities	(17,714)	(11,029)	-	-	(28,743)
Net exchange differences	(694)	(428)	-	-	(1,122)
At December 31	<u>\$ 12,673</u>	<u>\$ 11,358</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ 32,087</u>
<u>At December 31</u>					
Cost	\$ 88,057	\$ 47,000	\$ 8,056	\$ 9,200	\$ 152,313
Accumulated amortisation and impairment	(75,384)	(35,642)	-	(9,200)	(120,226)
	<u>\$ 12,673</u>	<u>\$ 11,358</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ 32,087</u>

	2018				
	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1</u>					
Cost	\$ 113,901	\$ 47,000	\$ 8,056	\$ 9,200	\$ 178,157
Accumulated amortisation and impairment	(49,843)	(26,242)	-	(6,440)	(82,525)
	<u>\$ 64,058</u>	<u>\$ 20,758</u>	<u>\$ 8,056</u>	<u>\$ 2,760</u>	<u>\$ 95,632</u>
At January 1	\$ 64,058	\$ 20,758	\$ 8,056	\$ 2,760	\$ 95,632
Additions-acquired separately	19,942	-	-	-	19,942
Additions-from internal development	-	21,028	-	-	21,028
Reclassifications	4,542	-	-	-	4,542
Amortisation charge	(39,416)	(7,036)	-	(1,840)	(48,292)
Net exchange differences	(645)	(361)	-	-	(1,006)
At December 31	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>
<u>At December 31</u>					
Cost	\$ 135,585	\$ 67,622	\$ 8,056	\$ 9,200	\$ 220,463
Accumulated amortisation and impairment	(87,104)	(33,233)	-	(8,280)	(128,617)
	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>

A. Details of amortisation on intangible assets are as follows:

	Year ended	Year ended
	December 31, 2019	December 31, 2018
Cost of sales	\$ 13,862	\$ 8,927
General and administrative expenses	27,207	32,825
Research and development expenses	5,759	6,540
	<u>\$ 46,828</u>	<u>\$ 48,292</u>

B. Goodwill is allocated as follows to the Group's cash-generating units:

	December 31, 2019	December 31, 2018
CMVT	<u>\$ 8,056</u>	<u>\$ 8,056</u>

Goodwill is allocated to the cash-generating units identified by the Group. The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use future cash flow projections covering a five-year period. The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The calculation of value in use mainly considers the operating profit margin, growth rate and discount rate. Management determined gross margin

based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

(12) Other assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current		
Import VAT	\$ -	\$ 833
Temporary payments	8,958	26,732
Prepayments for leases	-	5,648
Payments on behalf of others	3,052	5,483
Other	6,272	5,186
	<u>\$ 18,282</u>	<u>\$ 43,882</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-Current		
Prepayments for technical royalty (Note)	\$ -	\$ 786,006
Prepayments for leases	-	246,408
Refundable deposits	8,790	11,368
Others	334	10,450
	<u>\$ 9,124</u>	<u>\$ 1,054,232</u>

Note: Refer to details on Note 9 (4).

(13) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ 2,422,816	0.63%~4.50%	-
Bank secured borrowings	319,775	0.82%~2.67%	Land、buildings and structures
Other short-term borrowings	45,834	4.11%	Machinery and equipment
	<u>\$ 2,788,425</u>		
<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ 5,277,148	0.59%~5.66%	-
Bank secured borrowings	164,177	4.02%~4.62%	Notes receivable
- Transferred receivables			
	<u>\$ 5,441,325</u>		

A. Information about interest expense recognised in profit or loss is provided in Note 6(23).

B. The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on April 11, 2019. The resolutions of the meeting are as follows:

- (a) During the debt negotiation, the bank loans are secured by the Company's chairman, Ho, Jau-Yang, as a joint guarantor.
- (b) The principal is extended for one year (until the end of March 2020) and the interest is repayable monthly.
- (c) The Company is willing to pledge additional land and plants as collateral to creditor banks for providing greater protection of creditor's rights.
- (d) The Company sets up an escrow account and funds are remitted into the account for a centralised management and supervision. (The escrow account is set up in the largest creditor bank)

On July 26, 2019, the resolutions made during the debt negotiation meeting were approved in writing by all the creditor institutions.

C. The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on February 21, 2020. The resolutions of the meeting are as follows:

- (a) The principal is extended for two years (until March 31, 2022) and the interest is paid normally.
- (b) Taiwan Cooperative Bank and Changhua Bank will negotiate with headquarter for increasing facilities (issuing letters of credit and hedge amount) to support the operation cashflow of the Company. Remaining banks will extend the maturity to March 31, 2022 or extend the drawing period of drawn facilities to March 31, 2022.

The resolutions made during the debt negotiation meeting will become effective after obtaining the written approval from two-thirds of total claims of all creditor banks. As of March 18, 2020, the written approval of each creditor bank has not been completed.

D. In November 2019, the Group was financed by IBT Leasing Co., Ltd. through sales with buyback agreements. As of December 31, 2019, the Group issued unexpired notes in the amount of \$47,718 for the aforementioned transaction.

(14) Other payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Payables for salaries or bonuses	\$ 175,118	\$ 275,416
Payables for annual leave	39,442	38,304
Payables for insurance premiums	14,379	17,641
Payables for purchase of equipment	9,925	375,950
Payables for interest	9,233	22,225
Accrued taxes payable	7,539	23,574
Payables for purchase of land or buildings	-	12,709
Other	167,462	310,392
	<u>\$ 423,098</u>	<u>\$ 1,076,211</u>

(15) Long-term borrowings

Type of borrowings	December 31, 2019	December 31, 2018
<u>Unsecured borrowings</u>		
Syndicated loan: Lead bank - Bank of Taiwan		
Repayable quarterly on interest from September 23, 2016; repayable from March 23, 2019 to September 23, 2021. (Note)	\$ -	\$ 3,161,300
Borrowings		
Repayable monthly on interest from December 17, 2018. The principal was repaid in full on the maturity date (December 17, 2020).	200,000	200,000
Borrowings		
Repayable monthly on interest from November 15, 2018; repayable from November 6, 2019 to November 14, 2023 (Note)	-	11,940
	200,000	3,373,240
Less: Current portion	(200,000)	(3,170,244)
	\$ -	\$ 202,996
Interest rate range	1.50%	1.50%~4.75%

Note: It was bank borrowings of KSCMMT. In December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. Therefore, KSCMMT is no longer included in the Group's consolidated financial statements.

A. Information on interest expense recognised in profit or loss is provided in Note 6(23).

B. In September 2016, KSCMMT signed the syndicated loan agreement with Bank of Taiwan and other banks for the purpose of enriching long-term operating capital. CMMT, Hangzhou Jinjiang Group Co., Ltd. ("HJ") and Zhejiang Renyuan Import & Export Co., Ltd. jointly stood for KSCMMT's credit line.

The above long-term bank loan agreement requires the maintenance of certain financial ratios based on the Group's annual financial statements. The related restrictions are as follows:

- (a) Current ratio: at least 100%;
- (b) Debt ratio: no more than 100%;
- (c) Interest coverage ratio: at least 3; and
- (d) Tangible net worth: at least \$10 billion.

During 2018 and 2017, the Group breached certain terms of its long-term loan agreements, which are primarily related to the interest coverage ratio of the Group. The management had applied for an exemption when the ratios were breached, and the Group has reach an agreement for the exemption with the bank for year 2017. In addition, the bank has informed KSCMMT to raise capital to repay the syndicated loan and settle the remaining principal by December 23, 2019. KSCMMT agreed to raise capital to repay the principal and interest of the syndicated loan. The loan was classified as a current liability as at December 31, 2018, in the amount of \$3,161,300.

C. Due to the difficulty of repayment, the Group started a debt negotiation meeting with creditor banks to negotiate the debt repayment, please refer to Note 6(10) for details.

(16) Pensions

- A. The Company and its domestic subsidiaries 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. NBCMMT, KSCMMT, KSCMS, XJHM and KSMF makes monthly contributions based on certain percentages of the basic salaries of their employees.
- C. The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2019 and 2018 were \$87,022 and \$78,038, respectively.

(17) Share capital

- A. As of December 31, 2019, the Company’s authorised capital was \$12,000,000, consisting of 1,200,000 thousand shares and the paid-in capital was \$6,657,285 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:

	(Units: in thousand shares)	
	2019	2018
At January 1 (and December 31)	665,729	665,729

B. GDRS

- (a) On December 20, 2016, the Company’s Board of Directors approved to increase its capital by the issuance of 150,000 thousand shares of common shares by sponsoring the issuance of global depositary receipts (GDRs), which was approved by the FSC. Each GDR represents 40 common shares, which have been listed on the SGX since September 12, 2017, with a per-unit issue price of USD17.31 and a total amount of USD 64,913 thousand. As of December 31, 2019, the outstanding 3 thousand units of GDRs represented 116 thousand common shares. The agreement clause of a GDR purchase stipulates the following:

i. Voting rights

Unless stipulated otherwise by applicable laws and regulations, the Bank of New York Mellon (the “Depositary”) may exercise the voting rights associated with the underlying common shares represented by the GDRs on behalf of the holders of the GDRs in accordance with the Deposit Agreement (the “Deposit Agreement”) entered into by the Company, the Depositary, and the individual holders of the GDRs as well as in accordance with the laws and regulations of the ROC.

ii. Sale and withdrawal of the underlying common shares

The holders of the GDRs may request to withdraw and hold the common shares represented by the GDRs pursuant to the relevant laws and regulation of the ROC and the Deposit Agreement; or the holders of the GDRs may request to withdraw and ask the Depositary to sell such withdrawn common shares on behalf of the holders of the GDRs

and pay the sales proceeds after deducting tax and other relevant fees to the holders of the GDRs pursuant to the relevant laws and regulation of the ROC and the Deposit Agreement.

iii. Distribution of dividends, pre-emptive rights, and other interests

Unless otherwise provided in the Deposit Agreement, the holders of the GDRs shall be entitled to the same rights on dividends distribution or on their distributions as the holders of common shares of the Company. If the Company distributes share dividends or makes other share distributions in the future, the Depositary will, in accordance with the Deposit Agreement and the relevant laws and regulations, issue additional GDRs to the holders of the GDR unit, or sell such distributed shares on behalf of the holder of the GDRs and then pay the sales proceeds after deducting tax and other relevant fees to the holder of the GDRs on a pro rata basis.

(18) 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 Act requires that the amount of capital surplus to be capitalised 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.

	2019			
	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1	\$ 803,494	\$ 6,776	\$ 41,419	\$ 851,689
Changes in ownership interests in subsidiaries	-	-	92,337	92,337
At December 31	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 133,756</u>	<u>\$ 944,026</u>
	2018			
	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1	\$ 803,494	\$ 3,062	\$ 50,212	\$ 856,768
Purchase price and carrying amount arising from disposal of subsidiaries	-	3,714	-	3,714
Changes in ownership interests in subsidiaries	-	-	(8,793)	(8,793)
At December 31	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 41,419</u>	<u>\$ 851,689</u>

(19) Retained earnings

A. Under the Company's Articles of Incorporation, surplus should be used to pay tax, offset the aggregated loss, and 10% surplus in mandatory reserve. However, 10 % mandatory reserve may not to be executed as the reserve reaches to the amount of registered capital of the company; the

Board of Directors is authorized to assign dividend and bonus wholly or partially in cash and report to shareholders' meeting if mandatory reserve, tax and levies have been paid out.

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. Special reserve

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.

D. On June 28, 2019 and June 22, 2018, the shareholders resolved that the Company will not distribute dividends, but set aside special reserve amounting to \$201,306 and \$43,251, respectively.

E. On March 18, 2020, the Board of Directors of the Company proposed not to appropriate dividends and provisioned special reserves amounting to \$229,331.

(20) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from contracts with customers, divided into the following major geographical regions:

<u>Year ended December 31, 2019</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 4,599,132	\$ 10,297,118	\$ 14,896,250
Inter-segment revenue	3,589,889	834,373	4,424,262
Elimination of internal transaction	(3,589,889)	(834,373)	(4,424,262)
Revenue from external customer	<u>\$ 4,599,132</u>	<u>\$ 10,297,118</u>	<u>\$ 14,896,250</u>
<u>Year ended December 31, 2018</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 4,040,256	\$ 8,726,906	\$ 12,767,162
Inter-segment revenue	4,238,318	537,672	4,775,990
Elimination of internal transaction	(4,238,318)	(537,672)	(4,775,990)
Revenue from external customer	<u>\$ 4,040,256</u>	<u>\$ 8,726,906</u>	<u>\$ 12,767,162</u>

B. Contract liabilities

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liabilities –			
sale of goods	\$ <u>22,169</u>	\$ <u>33,760</u>	\$ <u>9,479</u>

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		
Sale of goods	\$ <u>4,156</u>	\$ <u>9,428</u>

(21) Other income

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest income:		
Interest income from bank deposits	\$ 32,748	\$ 28,568
Rental income	1,564	596
Dividend income	712	430
Government grants	11,239	11,461
Disgorgement income	11,033	-
Technical service income	19,700	-
Others	42,010	58,461
	<u>\$ 119,006</u>	<u>\$ 99,516</u>

(22) Other gains and losses

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Losses on disposals of property, plant and equipment	(\$ 5,294)	(\$ 7,315)
Gains on disposals of investments	140,450	-
Foreign exchange losses	(82,439)	(252,553)
Net (losses) gains on financial assets or liabilities at fair value through profit or loss	(35,062)	5,121
Gain arising from lease modification	110	-
Compensation losses	(26,966)	-
Impairment loss recognised in profit or loss, financial assets	(49,000)	-
Others	(15,381)	(20,181)
	<u>(\$ 73,582)</u>	<u>(\$ 274,928)</u>

(23) Finance costs

	Year ended December 31, 2019	Year ended December 31, 2018
Interest expense - bank borrowings	\$ 330,330	\$ 290,580
Interest expense - lease liabilities	2,355	-
	<u>\$ 332,685</u>	<u>\$ 290,580</u>

(24) Expenses by nature

	Year ended December 31, 2019	Year ended December 31, 2018
Employee benefit expense	\$ 1,720,352	\$ 1,604,720
Depreciation charges on property, plant and equipment	944,055	1,096,227
Depreciation charges on right-of-use assets	24,531	-
Amortisation charges on intangible assets	46,828	48,292
Amortisation charges on prepayment for leases	-	5,759

(25) Employee benefit expense

	Year ended December 31, 2019	Year ended December 31, 2018
Pension costs	\$ 87,022	\$ 78,038
Short-term employee benefits	1,633,330	1,526,682
	<u>\$ 1,720,352</u>	<u>\$ 1,604,720</u>

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 1% for directors' remuneration.
- B. The Company incurred losses for the years ended December 31, 2019 and 2018; thus, neither employees' compensation nor remuneration of directors were estimated.
- Information about employees' compensation and directors' remuneration of the Company as approved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense (benefit)

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax:		
Current tax on profit in current period	\$ -	\$ 9,464
Prior year income tax underestimation	967	9
Total current tax	967	9,473
Deferred tax:		
Origination and reversal of temporary differences	20,631 (	24,944)
Impact of change in tax rate	- (	9,243)
Total deferred tax	20,631 (	34,187)
Income tax expense (benefit)	\$ 21,598	(\$ 24,714)

B. Reconciliation between income tax expense (benefit) and accounting loss:

	Year ended December 31, 2019	Year ended December 31, 2018
Tax calculated based on loss before tax and statutory tax rate (note)	(\$ 170,001)	(\$ 311,785)
Expenses disallowed by tax regulation	2,969	53,701
Temporary differences not recognised as deferred tax assets	(29,327)	28,826
Taxable loss not recognised as deferred tax assets	216,990	204,535
Prior year income tax underestimation	967	9
Income tax expense (benefit)	\$ 21,598	(\$ 24,714)

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

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

	2019				
	January 1	Recognised in profit or loss	Effect of foreign exchange	Decrease in consolidated entities	December 31
Temporary differences:					
- Deferred tax assets:					
Allowance for obsolescence and decline in market value of inventories	\$ 104,996	(\$ 20,631)	(\$ 583)	(\$ 15,051)	\$ 68,731
Unrealised gain on financial assets	59	-	-	-	59
Deferred revenue	4,160	-	-	-	4,160
Unrealized exchange gain	108	-	-	-	108
Provision	2,074	-	-	-	2,074
Others	1,249	-	-	-	1,249
	<u>112,646</u>	<u>(20,631)</u>	<u>(583)</u>	<u>(15,051)</u>	<u>76,381</u>
-Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	(6,768)	-	-	-	(6,768)
Others	(15,906)	-	-	-	(15,906)
	<u>(22,674)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,674)</u>
Total	<u>\$ 89,972</u>	<u>(\$ 20,631)</u>	<u>(\$ 583)</u>	<u>(\$ 15,051)</u>	<u>\$ 53,707</u>

	2018				
	January 1	Recognised in profit or loss	Reclassification	Effect of foreign exchange	December 31
Temporary differences:					
- Deferred tax assets:					
Allowance for obsolescence and decline in market value of inventories	\$ 68,731	\$ 36,979	\$ -	(\$ 714)	\$ 104,996
Unrealised gain on financial assets	59	-	-	-	59
Deferred revenue	4,160	-	-	-	4,160
Unrealized exchange gain	108	-	-	-	108
Provision	2,074	-	-	-	2,074
Others	(11,683)	(2,792)	15,727	(3)	1,249
	<u>63,449</u>	<u>34,187</u>	<u>15,727</u>	<u>(717)</u>	<u>112,646</u>
-Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	(6,768)	-	-	-	(6,768)
Others	(179)	-	(15,727)	-	(15,906)
	<u>(6,947)</u>	<u>-</u>	<u>(15,727)</u>	<u>-</u>	<u>(22,674)</u>
Total	<u>\$ 56,502</u>	<u>\$ 34,187</u>	<u>\$ -</u>	<u>(\$ 717)</u>	<u>\$ 89,972</u>

D. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:
The company and its domestic subsidiaries:

December 31, 2019					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Amount assessed	\$ 4,714	\$ 4,714	\$ 4,714	2020
2011	Amount assessed	38,616	38,616	38,616	2021
2012	Amount assessed	52,328	52,328	52,328	2022
2013	Amount assessed	35,846	35,846	35,846	2023
2014	Amount assessed	16,480	16,480	16,480	2024
2015	Amount assessed	4,767	4,767	4,767	2025
2016	Amount assessed	1,134,124	1,134,124	1,134,124	2026
2017	Amount assessed	601,784	601,784	601,784	2027
2018	Amount filed	183,843	183,843	183,843	2028
2019	Expected filed amount	850,788	850,788	850,788	2029

Foreign subsidiaries:

December 31, 2019					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	Amount filed	\$ 204,336	\$ 204,336	\$ 204,336	2021
2017	Amount filed	303,456	303,456	303,456	2022
2018	Amount filed	82,341	82,341	82,341	2023
2019	Expected amount filed	204,196	204,196	204,196	2024

The company and its domestic subsidiaries:

December 31, 2018					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Amount assessed	\$ 4,714	\$ 4,714	\$ 4,714	2020
2011	Amount assessed	38,616	38,616	38,616	2021
2012	Amount assessed	52,328	52,328	52,328	2022
2013	Amount assessed	35,846	35,846	35,846	2023
2014	Amount assessed	16,480	16,480	16,480	2024
2015	Amount assessed	4,767	4,767	4,767	2025
2016	Amount assessed	1,134,124	1,134,124	1,134,124	2026
2017	Amount filed	559,936	559,936	559,936	2027
2018	Expected filed amount	413,382	413,382	413,382	2028

Foreign subsidiaries:

December 31, 2018					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	Amount filed	\$ 204,336	\$ 204,336	\$ 204,336	2021
2017	Amount filed	837,906	837,906	837,906	2022
2018	Expected amount filed	181,260	181,260	181,260	2023

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deductible temporary differences	\$ <u>651,180</u>	\$ <u>1,181,230</u>

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

G. Under the amendments to the Income Tax Act which was promulgated in February, 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from the year 2018. The Group has assessed the impact of the change in income tax rate.

(27) Loss per share

		<u>Year ended December 31, 2019</u>	
		Weighted average number of ordinary shares outstanding	Loss per share
		<u>Amount after tax (share in thousands)</u>	<u>(in dollars)</u>
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ <u>688,559</u>)	<u>665,729</u>	(\$ <u>1.03</u>)
		<u>Year ended December 31, 2018</u>	
		Weighted average number of ordinary shares outstanding	Loss per share
		<u>Amount after tax (share in thousands)</u>	<u>(in dollars)</u>
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ <u>655,080</u>)	<u>665,729</u>	(\$ <u>0.98</u>)

(28) Transactions with non-controlling interest

A. Disposal of equity interest in a subsidiary (that did not result in a loss of control)

In January 2018, the Group disposed of 2% of its interest in CMVT, reducing its continuing interest from 81.33% to 79.33%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	CMVT
Cash consideration received	\$ 6,000
Proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(2,286)
Differences recognized from equity transactions	<u>\$ 3,714</u>
<u>Line items adjusted for equity transactions</u>	
Capital surplus - purchase price and carrying amount differences from acquisitions or disposals of subsidiaries	<u>\$ 3,714</u>

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

The Group and another shareholder of KSCMMT increased their equity capital of KSCMMT by US\$73 million respectively over the period of May to December, 2018. The transaction increased non-controlling interest by \$2,219,883 and decreased equity attributable to owners of parent by \$8,793.

In October 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased from 49.5% to 45.15%. The transaction increased non-controlling interest by \$780,235 and increased equity attributable to owners of parent by \$92,337.

The effect of changes in interest in KSCMMT on the equity attributable to owners of the parent for the years ended December 31, 2019 and 2018 is shown below:

	December 31, 2019	December 31, 2018
Cash	\$ 872,572	\$ 2,211,090
Increase in the carrying amount of non-controlling interest	(780,235)	(2,219,883)
Capital surplus - recognition of changes in ownership interest in subsidiaries	<u>\$ 92,337</u>	<u>(\$ 8,793)</u>

C. Disposal of subsidiaries

In December 2019, KSCMMT increased its capital in cash. CMMTI did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased from 45.15% to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT.

- (a) Details of the carrying amount of those assets and liabilities that KSCMMT lost its control are as follows:

	<u>December 31, 2019</u>
Cash and cash equivalents	\$ 426,496
Current financial assets at amortised cost	1,110,449
Notes receivable	143,489
Accounts receivable	1,684,847
Accounts receivable - related parties	229,104
Other receivables	13,291
Inventories	1,207,810
Allowance for inventory valuation losses	(128,674)
Prepayments	463,537
Other current assets	208,446
Property, plant and equipment	10,719,414
Right-of-use assets	257,580
Intangible assets	28,743
Deferred tax assets	15,051
Prepayments for equipment	6,059
Other non-current assets	36,803
Short-term borrowings	(1,636,849)
Accounts payable	(856,200)
Accounts payable - related parties	(1,034,793)
Other payables	(790,942)
Current lease liabilities	(18,028)
Current portion of long-term bank loans	(1,657,728)
Other current liabilities	(12,571)
Non-current lease liabilities	(37,519)
Long-term bank loans	(2,444,766)
Other non-current liabilities	(175,908)
The carrying amount of net assets of subsidiaries at the date when control is lost	<u>\$ 7,757,141</u>

- (b) Gains on disposal of subsidiaries

	<u>KSCMMT</u>
Fair value of the remaining investments	\$ 3,642,799
Less: Carrying amount of the investment at the date when control is lost	(3,502,349)
Gains on disposal of investments	<u>\$ 140,450</u>

(29) Supplemental cash flow information

A. Investing activities with partial cash payments

	Year ended December 31, 2019	Year ended December 31, 2018
Purchase of property, plant and equipment	\$ 3,355,327	\$ 802,162
Add: Opening balance of payable on equipment	375,950	933,040
Opening balance of payable for purchase of land or building	12,709	-
Less: Discount of payable on equipment	-	-
Ending balance of payable on equipment	(9,925)	(375,950)
Ending balance of payable for purchase of land or building	-	(12,709)
Ending balance of payable on equipment - effect of decrease in consolidated entities	(599,946)	-
Cash paid	<u>\$ 3,134,115</u>	<u>\$ 1,346,543</u>

B. Investing activities with no cash flow effects

	Year ended December 31, 2019	Year ended December 31, 2018
Prepayments for equipment transferred to property, plant and equipment	<u>\$ 1,627,496</u>	<u>\$ 48,042</u>
Prepayments for equipment transferred to other intangible assets	<u>\$ 990</u>	<u>\$ -</u>
Property, plant and equipment transferred to other intangible assets	<u>\$ -</u>	<u>\$ 209</u>
Property, plant and equipment transferred to prepayments	<u>\$ -</u>	<u>\$ 5,994</u>
Property, plant and equipment transferred to expenses	<u>\$ -</u>	<u>\$ 8,221</u>
Other non-current assets transferred to property, plant and equipment	<u>\$ 786,006</u>	<u>\$ -</u>
Other non-current assets transferred to other intangible assets	<u>\$ -</u>	<u>\$ 4,333</u>

(30) Changes in liabilities from financing activities

	At January 1, 2019	Changes in cash flow from financing activities	Changes in other non-cash items	Decrease in consolidated entities	Effect of foreign exchange	At December 31, 2019
Short-term borrowings	\$ 5,441,325	(\$ 1,440,497)	\$ -	(\$ 1,636,849)	\$ 424,446	\$ 2,788,425
Lease liabilities	58,020	(14,226)	14,108	(55,547)	(2,155)	200
Long-term borrowings	3,373,240	1,098,774	-	(4,102,494)	(169,520)	200,000
Guarantee deposits received	49	(9)	-	-	-	40
Liabilities from financing activities-gross	<u>\$ 8,872,634</u>	<u>(\$ 355,958)</u>	<u>\$ 14,108</u>	<u>(\$ 5,794,890)</u>	<u>\$ 252,771</u>	<u>\$ 2,988,665</u>

	At January 1, 2018	Changes in cash flow from financing activities	Effect of foreign exchange	At December 31, 2018
Short-term borrowings	\$ 3,813,259	\$ 1,564,674	\$ 63,392	\$ 5,441,325
Short-term notes payable	100,000	(100,000)	-	-
Long-term borrowings	2,639,833	630,889	102,518	3,373,240
Guarantee deposits received	171	(122)	-	49
Liabilities from financing activities-gross	<u>\$ 6,553,263</u>	<u>\$ 2,095,441</u>	<u>\$ 165,910</u>	<u>\$ 8,814,614</u>

(31) Government grants

KSCMMT acquired government subsidy for the amount of RMB 48,380 thousand dollars in January 2018. The government grant is from the Kunshan government to encourage enterprises to set up factories in the Kunshan development zone. After the establishment of a factory is completed, grants are granted. It is an asset-related government grant, which is recognised as deferred revenue. As of December 31, 2019 and 2018, the balance of this deferred revenue is \$0 and \$205,116 (which is shown as “other current liabilities” amounting to \$ 11,239 and “other non-current liabilities” amounting to \$193,877), respectively. For the years ended December 31, 2019 and 2018, the revenue realized based on the service life of the factory was \$11,239 and \$11,461, respectively.

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Hangzhou Jinjiang Group Co., Ltd ("HJ")	Affiliates (Note 1)
Zhejiang Zhengjie Commercial and Trading Co., Ltd. ("ZZ")	Affiliates
Shenzhen SAPO Photoelectric Co., Ltd. ("SAPO")	Affiliates (Note 9)
Jun Hong Optronics Corporation ("JH")	Affiliates (Note 2)
Bao Dui International Limited (BAO DUI)	Affiliates (Note 3)
Yeh Mei Li	Former vice chairman of the Company (Note 4)
Ki Kin Corporation ("KK")	Affiliates (Note 5)
Innolux Corporation ("Innolux")	Persons as director of the Company (Note 6)
Foshan Innolux Optoelectronics Ltd. ("Foshan Innolux")	Affiliates (Note 7)
Shanghai Innolux Optoelectronics Ltd. ("Shanghai Innolux")	Affiliates (Note 7)
Nanjing Innolux Optoelectronics Ltd. ("Nanjing Innolux")	Affiliates (Note 7)
Ningbo Innolux Optoelectronics Ltd. ("Ningbo Innolux")	Affiliates (Note 7)
Ningbo Innolux Display Ltd. ("Ninbo Innolux Display")	Affiliates (Note 7)
Kunshan Chimei Materials Technology Co., Ltd. ("KSCMMT")	Associates (Note 8)

Note 1: HJ originally held a 47.97% equity interest in KSCMMT, and subsequently transferred its ownership to Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd. on December 19, 2018, However, Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd.'s partner is Zhejiang Hengjie Co., Ltd. which is the subsidiary owned by HJ. Therefore, HJ is still the Group's related party.

Note 2: During the transaction, Mei-Li, Yeh served as the general manager and director of the company.

Note 3: During the transaction, the Company's representative is the first degree of kinship of Mei-Li, Yeh.

Note 4: Mei-Li, Yeh had served as the vice chairman of the Group from July 18, 2018 until April 26, 2019.

Note 5: It is the subsidiary owned by HJ.

Note 6: It had served as the legal persons as director of the Company from April 26, 2019.

Note 7: It is the subsidiary owned by Innolux.

Note 8: On October 15, 2019, the former shareholder, Zhejiang Renyuan Import & Export Co., Ltd, increased its investment in KSCMMT in the amount of USD 28.5 million, the shareholding ratio of the Group was decreased from 49.5% to 45.15%. On December 17, 2019, Hefei Northtown Optoelectronic Industry Fund No.2 (LLP) increased its investment in KSCMMT in the amount of USD 57 million, causing the Group's shareholding ratio was decreased to 38.4%. In addition, KSCMMT's directors have been reelected on December 24, 2019, the Group lost its control over KSCMMT. However, the Group still has significant influence over KSCMMT, thus KSCMMT is one of associates of the Group.

Note 9: During the transaction, the general manager of SAPO, Huang Yuan, has served as vice chairman of KSCMMT.

(2) Significant related party transactions

A. Operating revenue

	Year ended December 31, 2019	Year ended December 31, 2018
Sales of goods:		
Innolux	\$ 1,718,460	\$ -
Affiliates	3,209,013	181,572
	<u>\$ 4,927,473</u>	<u>\$ 181,572</u>

The selling price and collection term are conducted by mutual agreement, and there is no significant difference between related parties and non-related parties.

B. Purchases

	Year ended December 31, 2019	Year ended December 31, 2018
Purchases of goods:		
Affiliates	<u>\$ 748,433</u>	<u>\$ 334,474</u>

Because there is no similar counterparty or transaction, the purchase prices and payment terms with related parties are conducted by mutual agreement.

C. Receivables from related parties

	December 31, 2019	December 31, 2018
Notes receivable:		
Affiliates	<u>\$ -</u>	<u>\$ 18,806</u>
Accounts receivable:		
Innolux	\$ 671,606	\$ -
Ningbo Innolux	534,302	-
Foshan Innolux	478,716	-
Associates	55,122	-
Affiliates	193,864	197,791
	<u>\$ 1,933,610</u>	<u>\$ 197,791</u>
Other receivables:		
KSCMMT	\$ 54,554	\$ -
BAO DUI (Note 1)	-	88,256
ZZ (Note 2)	-	91,495
	54,554	179,751
Less: Allowance for credit losses	-	(91,495)
	<u>\$ 54,554</u>	<u>\$ 88,256</u>

Note 1: The Group prepaid certain payments to BAO DUI. However, since BAO DUI did not deliver goods based on the contract terms, the contract was cancelled under mutual agreement in January 2019. The Group classified BAO DUI as a counterparty of loans to others, which has a business relationship.

Note 2: This is the accounts receivable resulting from the triangular trade conducted in KSCMS.
The Group regarded it as a loan to the companies with business relationship.

D. Payables to related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable:		
SAPO	\$ -	\$ 375,639
Associates	<u>1,240</u>	<u>-</u>
	<u>\$ 1,240</u>	<u>\$ 375,639</u>

E. Contract liabilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
JH	\$ -	\$ 29,560
KSCMMT	<u>13,928</u>	<u>-</u>
	<u>\$ 13,928</u>	<u>\$ 29,560</u>

The Group's advance receipts arising from JH have been returned to JH in March 2019, because the Group did not deliver goods based on the contract terms, and the contract has been cancelled under mutual agreement in the same month.

F. Loans to related parties (categorized as "other receivable – related parties")

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Outstanding balance		
KSCMMT	<u>\$ 750,837</u>	<u>\$ -</u>

On November 11, 2019, the Board of Directors resolved to reclassify the accounts receivable of KSCMMT that exceeded a certain period from loans to others to other receivables. The loan period was 6 months.

G. In October 2018, the Group acquired 6 million shares of JH from a non-related party, at a price of NT\$15 per share, the total consideration is \$90,000, and this transaction was recognised in 'Financial assets at fair value through other comprehensive income-non-current'. The fair value on December 31, 2019 and 2018 is \$22,097 and \$27,060, respectively. These shares were formerly held by Mei-li, Yeh. Such transactions were made in one month.

H. Prepayment for equipment

The subsidiary, KSCMMT, signed an equipment purchasing agreement with Ki Kin Corporation on March 15, 2018, and paid RMB 135,985 thousand in advance on May 17, 2018. Because the progress of the machine was delayed, KSCMMT cancelled this agreement on July 27, 2018 and required KK to return the advance payment. As of December 31, 2019, the advance payment has been returned in full.

I. Endorsements and guarantees provided by the related parties to the Group:

	December 31, 2019	December 31, 2018
HJ	\$ -	\$ 1,454,198

J. Endorsements and guarantees provided by the Group to the related parties:

	December 31, 2019		December 31, 2018	
	Outstanding endorsements / guarantee amount	Actual amount drawn down	Outstanding endorsements / guarantee amount	Actual amount drawn down
KSCMMT	\$ 3,444,732	\$ 2,342,259	\$ -	\$ -

(3) Key management compensation

	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and other short-term employee benefits	\$ 28,014	\$ 14,309
Post-employment benefits	420	296
	<u>\$ 28,434</u>	<u>\$ 14,605</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2019	December 31, 2018	
Demand deposit (Note)	\$ 60,061	\$ -	An escrow account for debt negotiation procedures
Pledged deposits (Note)	7,000	1,253,226	Provided as collateral for the letters of credit for purchases of raw materials
Notes receivable	-	164,177	Short-term loan resulting from notes receivable factoring
Property, plant and equipment - land	1,428,543	-	Short-term loan and provided as collateral for credit line
Property, plant and equipment - buildings and structures	1,888,751	-	Short-term loan and provided as collateral for credit line
Property, plant and equipment - machinery and equipment	155,821	-	Short-term loan
	<u>\$ 3,540,176</u>	<u>\$ 1,417,403</u>	

Note: It is categorized as "financial assets at amortized cost".

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

In addition to those disclosed in other notes to the consolidated financial statements, significant commitments and contingencies of the Group as of December 31, 2019 and 2018 were as follows:

- (1) As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and equipment were as follows:

	Units: Foreign currency (in thousand)	
	December 31, 2019	December 31, 2018
JPY	\$ 1,926,574	\$ 9,490,383
USD	-	15,744
TWD	-	20,454

- (2) As of December 31, 2019 and 2018, the amounts of guarantees provided by financial institutions for the purpose of importing goods were \$71,575 and \$183,880, respectively.
- (3) As of December 31, 2019 and 2018, the unpaid amounts of the construction contracts that the Group entered into for the expansion of factories and machinery equipment were \$982 and \$1,984,517, respectively.
- (4) The technology licensing agreement with Nitto Denko Corporation is for up to JPY 15 billion and was signed by KSCMMT, Hangzhou Jinjiang Group, which is the strategic partner and major shareholder of KSCMMT, and SAPO, which is an investee of Hangzhou Jinjiang Group. KSCMMT will have the rights to three 2,500 mm production lines, of which the total value will be JPY 7.5 billion. The total contract price is JPY 15 billion. As of December 31, 2019 and 2018, KSCMMT's unpaid amount were all JPY 4.5 billion.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on February 21, 2020. For the resolution of the meeting, please refer to 6(13) for details.
- (2) On March 18, 2020, the Company's Board of Directors resolved to terminate the resolution adopted from the stockholders at their annual stockholders' meeting on June 28, 2019 in relation to issuing its common shares through public or private offering, issuing new shares to participate in overseas depository receipts, or issuing overseas or domestic convertible corporate bonds, which includes secured or unsecured convertible corporate bonds.
- (3) On March 18, 2020, the Company's Board of Directors approved to issue its common shares through public or private offering, issue new shares to participate in overseas depository receipts, or issue overseas or domestic convertible corporate bonds, which includes secured or unsecured convertible corporate bonds. The amount is limited to 200,000 thousand shares.

12. OTHERS

(1) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged.

The key management personnel of the Group reviews the capital structure on a periodic basis. As part of this review, the key management personnel considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel,

in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and/or the number of new shares issued.

The gearing ratios at December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Total liabilities	\$ 4,538,744	\$ 13,049,148
Total assets	\$ 14,213,507	\$ 27,233,917
Gearing ratio	32%	48%

(2) Financial instruments

A. Financial instruments by category

	December 31, 2019	December 31, 2018
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 571	\$ 84,525
Financial assets at fair value through other comprehensive income		
Designation of equity instruments	\$ 169,740	\$ 215,727
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	\$ 192,942	\$ 3,105,426
Financial assets at amortised cost	202,507	1,313,826
Notes receivable	-	205,426
Accounts receivable	2,351,565	4,397,730
Other receivables	863,419	203,233
Refundable deposits	8,790	11,368
	<u>\$ 3,619,223</u>	<u>\$ 9,237,009</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ -	\$ 2,681
Financial liabilities at amortised cost		
Short-term borrowings	\$ 2,788,425	\$ 5,441,325
Notes payable	-	156,037
Accounts payable	1,073,248	2,725,787
Other payables	423,098	1,076,211
Long-term borrowings (including current portion)	200,000	3,373,240
Guarantee deposits received	40	49
	<u>\$ 4,484,811</u>	<u>\$ 12,772,649</u>
Lease liabilities	<u>\$ 200</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Group's Corporate Treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To minimise any adverse effects on the

financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

(b) The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limitations was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(c) The Group Treasury function is an independent body that monitors risks and policies implemented to mitigate risk exposures.

(d) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Group manages its foreign currency risk and interest rate by using derivative financial instrument, including foreign exchange forward contracts to hedge the risk arising from US dollar-denominated assets generated by sales and Japanese yen-denominated liabilities generated by the importation of raw materials from Japan.
- iii. The Group hedges foreign exchange rate by using foreign exchange option and forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets and liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currencies: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2019			
(Foreign currency: functional currency)	Foreign currency		Book value (NTD)
	amount	Exchange rate	
	(In thousands)		
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 103,040	29.98	\$ 3,089,139
JPY:NTD	70,790	0.276	19,538
RMB:NTD	135,100	4.305	581,606
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	52,384	29.98	1,570,472
JPY:NTD	6,302,193	0.276	1,739,405
RMB:NTD	595	4.305	2,561
December 31, 2018			
(Foreign currency: functional currency)	Foreign currency		Book value
	amount	Exchange rate	
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 131,906	30.72	\$ 4,052,152
JPY:NTD	274,402	0.2782	76,339
RMB:NTD	375,483	4.47	1,678,409
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	157,307	30.72	4,832,471
JPY:NTD	15,959,991	0.2782	4,440,069
RMB:NTD	131,436	4.47	587,519

- v. Total exchange loss, 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 to \$82,439 and \$252,553, respectively.
- vi. 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	0.5%	\$ 15,446		-
JPY:NTD	0.5%	98		-
RMB:NTD	0.5%	2,908		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	0.5%	7,852		-
JPY:NTD	0.5%	8,697		-
RMB:NTD	0.5%	13		-

Year ended December 31, 2018				
Sensitivity analysis				
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	0.5%	\$ 20,261		-
JPY:NTD	0.5%	382		-
RMB:NTD	0.5%	8,396		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	0.5%	24,162		-
JPY:NTD	0.5%	22,200		-
EUR:NTD	0.5%	5		-
RMB:NTD	0.5%	2,939		-

Price risk

- i. 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. 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.

- ii. The Group invests mainly in equity instruments issued by domestic companies. The equity's price will be affected by the uncertainty of the future value of the investment target. If the equity instrument price had increased/decreased by 1% with all other variables held constant, net profit of fair value through profit or loss for the years ended December 31, 2019 and 2018, would have increased/decreased by \$0 and \$704, respectively; Other comprehensive income classified as equity investment at fair value through other comprehensive income for the years ended December 31, 2019 and 2018, would have increased/decreased by \$1,697 and \$2,157, respectively.

Interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, net profit for the years ended December 31, 2019 and 2018, would have increased/decreased by \$29,426 and \$60,830, 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 and at fair value through profit or loss.
- ii. The Group's concentration of credit risk, was related to the Group's five largest customers. The average credit period of sales of goods was 90 to 120 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of the investment grade or higher. Credit rating information used to rate the Group's major customers is obtained from other publicly available financial information or the Group's own trading records. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee periodically.
- iii. When the trade parties have major financial difficulties, or overdue amount exists for period of time that will obviously not be recovered, it is deemed that a default has occurred.
- iv. The Group applies the simplified approach to provisions for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected losses provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the respective debtor and an analysis of the debtor's current financial position, adjusted for the general economic conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the

Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the provision for losses based on the past due status of receivables is not further distinguished according to different segments of the Group's customer base. The Group's credit risk of other receivables is assessed individually. Impairment gains on other receivables that an impairment loss recognised in prior periods have recovered for the year ended December 31, 2019 is \$91,500. Impairment loss due to other receivables which were past due was \$93,298 for the year ended December 31, 2018.

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 loss allowance of trade receivables based on the Group's provision matrix is as follows:

On December 31, 2019, the Group estimated expected loss rate for customers' accounts receivable as follows: not past due were 0.02%, past due up to 30 days were 0.02%, past due 31 to 90 days were 0.02%~0.04%, past due 91 to 180 days were 0.06%~0.11%, past due 181 to 270 days were 0.02%~0.96%, past due 271 to 360 days were 4.35%~25.04%, and past due over 360 days were 100%. As of December 31, 2018, the Company's estimated expected loss rate for customers' accounts receivable was 0%. As of December 31, 2019 and 2018, the total amount of the Group's accounts receivable which past due over 31 days were 0.01% and 0.00%, respectively.

vii. Movements in relation to the Group applying the modified approach to provide (loss allowance for accounts receivable) is as follows:

	2019	2018
January 1	\$ 1,628	\$ -
Provision for impairment	6,318	1,628
Reversal of impairment loss	(41)	-
Effects on exchange rate	(237)	-
December 31	<u>\$ 7,668</u>	<u>\$ 1,628</u>

viii. For provisioned loss for the years ended December 31, 2019 and 2018, the impairment losses arising from customers' contract amounts to \$6,277 and \$1,628, respectively.

(c) Liquidity risk

- i. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank loans

and ensures compliance with loan covenants. The forecast considers the debt financing plan, debt clauses, and financial ratio targets which compare to the internal balance sheet of the company. However, the Group breached certain terms of its long-term loan agreement during 2018. Refer to Note 6(15) for details.

- ii. Group treasury invests surplus cash in interest bearing current accounts, check deposit, time deposits, 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 Group held money market position of \$327,960 and \$3,185,603, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The Group relies on bank loans as a significant source of liquidity, the Group had available unutilized short-term bank loan facilities as below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unsecured bank overdraft facility		
Amount unused	\$ 2,109,122	\$ 12,284,861
Secured bank overdraft facility		
Amount unused	243,014	-
	<u>\$ 2,352,136</u>	<u>\$ 12,284,861</u>

iv. Liquidity and interest rate risk table for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table was drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

December 31, 2019

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 2,804,696	\$ -	\$ -
Accounts payable	1,073,248	-	-
Other payables	423,098	-	-
Long-term borrowings	203,000	-	-
(including current portion)			
Lease liabilities	57	148	-

December 31, 2018

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 5,479,881	\$ -	\$ -
Financial liabilities at fair value through profit or loss	2,681	-	-
Notes payable	156,037	-	-
Accounts payable	2,725,787	-	-
Other payables	1,076,211	-	-
Long-term borrowings (including current portion)	3,316,864	206,073	-

(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 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 is included in Level 3.

B. Financial instruments not measured at fair value

The management considers that the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values or cannot be reliably measured.

C. Fair value of financial instruments measured at fair value on a recurring basis

(a) Fair value hierarchy

December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Debt instruments	\$ -	\$ 571	\$ -	\$ 571
Financial assets at FVOCI				
Equity securities	-	-	169,740	169,740
	<u>\$ -</u>	<u>\$ 571</u>	<u>\$ 169,740</u>	<u>\$ 170,311</u>

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Equity securities	\$ 70,428	\$ -	\$ -	\$ 70,428
Debt instruments	-	-	2,500	2,500
Derivative instruments	-	11,597	-	11,597
Financial assets at FVOCI				
Equity securities	-	-	215,727	215,727
	<u>\$ 70,428</u>	<u>\$ 11,597</u>	<u>\$ 218,227</u>	<u>\$ 300,252</u>
Financial liabilities at FVTPL				
Short selling	<u>\$ 2,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,681</u>

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

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

	<u>Listed shares</u>
Market quoted price	Closing price

- ii. 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. Foreign exchange option and forward exchange contracts are usually valued based on the current spot exchange rate.
- iii. The fair value of financial instruments without active market 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.

(c) Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Listed shares</u>
Derivatives-foreign exchange forward contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.
Derivatives-foreign exchange option contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.

D. For the years ended December 31, 2019 and 2018, there was no transfer between level 1 and level 2.

E. The following chart is the movement of Level 3:

	Year ended December 31, 2019	Year ended December 31, 2019
	Equity instrument	Debt instrument
At January 1	\$ 215,727	\$ 2,500
Acquired in the period	14,478	1,000
Sold in the period	(1,550)	-
Losses recognised in profit or loss	-	(3,500)
Losses recognised in other comprehensive income	(58,915)	-
At December 31	<u>\$ 169,740</u>	<u>\$ -</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at December 31, 2019 (Note)	<u>\$ -</u>	<u>\$ 3,500</u>
	Year ended December 31, 2018	Year ended December 31, 2018
	Equity instrument	Debt instrument
At January 1	\$ -	\$ -
Acquired in the period	340,000	2,500
Losses recognised in other comprehensive income	(124,273)	-
At December 31	<u>\$ 215,727</u>	<u>\$ 2,500</u>

Note: Recorded as non-operating income and expense.

- F. For the years ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.
- G. Either the financial department segment or the external appraiser is in charge of valuation procedures for fair value measurements being categorised 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.
- H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

		<u>Fair value at December 31, 2019</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instruments						
Unlisted shares	\$	147,643	Market comparable companies	Multiple price-book ratio	0.70~2.46	The higher the price-book ratio, the higher the fair value
Unlisted shares		22,097	Market comparable companies	Multiple price-book ratio	0.42~1.37	The higher the price-book ratio, the higher the fair value
		<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instruments						
Unlisted shares	\$	188,667	Market comparable companies	Multiple price-book ratio	1.02~2.61	The higher the price-book ratio, the higher the fair value
Unlisted shares		27,060	Market comparable companies	Multiple price-book ratio	0.40~1.26	The higher the price-book ratio, the higher the fair value

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

		December 31, 2019 Recognised in other comprehensive income		
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets				
Equity instruments	Multiple price-book ratio	±1%	\$ 1,716	(\$ 1,885)
		December 31, 2018 Recognised in other comprehensive income		
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets				
Equity instruments	Multiple price-book ratio	±5%	\$ 10,893	(\$ 10,659)

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 \$300 million or 20% of paid-in capital or more: Please refer to table 4.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12(3).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

(1) General information

The Group considers the business and formulates the strategies from a geographic perspective, therefore the management identifies the reportable segments with the same approach.

The Group has two reportable segments and the operation is located in Taiwan and Mainland China individually. Both are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).

(2) Measurement of segment information

The Group evaluates the performance based on operating profit (loss) in each operating segments. Segment profit represented the profit before tax earned by each segment without the allocation of central administrator costs and directors' salaries, interest income, exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expenses. This was the measure reported to the Chief Operating Decision-Maker for the purpose of resource allocation and the assessment of segment performance.

(3) Segment revenue and results

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

Year ended December 31, 2019				
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 4,599,132	\$ 10,297,118	\$ -	\$ 14,896,250
Inter-segment revenue	3,589,889	834,373	(4,424,262)	-
Total segment revenue	\$ 8,189,021	\$ 11,131,491	(\$ 4,424,262)	\$ 14,896,250
Segment income (loss)	(\$ 845,159)	\$ 327,828	\$ 67,165	(\$ 450,166)
Other income				119,006
Other gain and loss				(73,582)
Financial cost				(332,685)
Share of profit (loss) of associates and joint ventures accounted for using equity method				(1,421)
Income before income tax from continuing operations				(\$ 738,848)
Segment assets	\$ 3,927,766	\$ 461,341	\$ -	\$ 4,389,107
Other assets				9,824,400
Total assets				\$ 14,213,507
Depreciation and amortisation	\$ 440,812	\$ 574,602	\$ -	\$ 1,015,414
Capital Expenditure	\$ 63,057	\$ 3,292,270	\$ -	\$ 3,355,327
Segment liabilities	\$ 4,071,692	\$ 1,458,478	(\$ 991,426)	\$ 4,538,744

Note: Refer to the internal revenue write-offs.

Year ended December 31, 2018				
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 4,040,256	\$ 8,726,906	\$ -	\$ 12,767,162
Inter-segment revenue	4,238,318	537,672	(4,775,990)	-
Total segment revenue	\$ 8,278,574	\$ 9,264,578	(\$ 4,775,990)	\$ 12,767,162
Segment income (loss)	(\$ 503,668)	(\$ 183,919)	\$ 80,719	(\$ 606,868)
Other income				99,516
Other gain and loss				(274,928)
Financial cost				(290,580)
Income before income tax from continuing operations				(\$ 1,072,860)
Segment assets	\$ 4,241,866	\$ 6,451,179	\$ -	\$ 10,693,045
Other assets				16,540,872
Total assets				\$ 27,233,917
Depreciation and amortisation	\$ 555,795	\$ 594,483	\$ -	\$ 1,150,278
Capital Expenditure	\$ 143,123	\$ 662,737	(\$ 3,698)	\$ 802,162
Segment liabilities	\$ 5,329,262	\$ 9,483,383	(\$ 1,763,497)	\$ 13,049,148

Note: Refer to the internal revenue write-offs.

The adoption of IFRS 16, 'Leases', had the following impact on the segment information in 2019.

	Taiwan	China	Adjustment and write-off	Total
Depreciation expense increased	\$ 7,071	\$ 21,498	(\$ 4,038)	\$ 24,531
Segment assets increased	\$ 5,876	\$ 30,798	(\$ 5,678)	\$ 30,996
Segment liabilities increased	\$ 5,920	\$ -	(\$ 5,720)	\$ 200

(4) Reconciliation for segment income (loss)

The total amounts and other significant disclosures in relation to the reportable segments mentioned in item (2) above are in agreement with those presented as related corresponding items in the Group's financial statements and are measured in a manner consistent with those thereon.

(5) Information on products and services

Revenue from external customers is mainly from the sales of polarizing films and relative raw materials. Details of revenue is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Polarizing films	\$ 14,844,070	\$ 12,404,609
Others	52,180	362,553
	<u>\$ 14,896,250</u>	<u>\$ 12,767,162</u>

(6) Geographical information

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	Revenue	Non-current assets
Taiwan	\$ 3,165,325	\$ 4,015,240	\$ 3,046,250	\$ 4,341,379
Mainland China	11,201,640	465,853	9,720,465	9,065,622
Others	529,285	-	447	-
	<u>\$ 14,896,250</u>	<u>\$ 4,481,093</u>	<u>\$ 12,767,162</u>	<u>\$ 13,407,001</u>

Non-current assets excludes non-current financial assets measured at fair value through other comprehensive income and deferred tax assets.

(7) Major customer information

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

	Year ended December 31, 2019	Year ended December 31, 2018
	Revenue	Revenue
A	\$ 3,007,928	\$ 3,078,406
B	2,246,044	1,897,948
C	1,930,368	1,746,519
D	1,524,659	1,086,771

Cheng Mei Materials Technology Corporation And Subsidiaries
Loans to others
Year ended December 31, 2019

Table 1

Expressed in thousands of NTD

No. (Note 1)	Materials	Borrower	General ledger account	Is a related party	Maximum outstanding balance during Year ended December 31, 2019			Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote	
					Item	Value													
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	\$ 108,387	\$ -	-	1.82%~4.16%	Business relationship	\$ 51,768	-	-	\$ -	None	\$ -	\$ 51,768	\$ 5,795,527	Notes 2	
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	85,000	85,000	85,000	2.50%	Short-term financing	-	-	Operating capital	-	None	None	-	3,863,505	5,795,527	Notes 2
0	Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	584,307	584,307	529,119	-	Business relationship	735,305	-	-	-	None	-	735,305	5,795,527	Notes 2、8	
1	Kunshan Chimei Materials Technology Co., Ltd	Kunshan Chimei Materials Trading Corp.	Other receivables - related parties	Yes	228,800	-	-	4.35%	Short-term financing	-	-	Operating capital	-	None	None	-	3,789,650	5,684,475	Notes 3、11
2	Kunshan Chimei Materials Trading Corp.	Hangzhou Rong Jie Trading Co., Ltd.	Other receivables	No	121,099	-	-	-	Business relationship	287,949	-	-	-	None	None	-	-	Notes 4、5、6、12	
2	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	129,150	129,150	129,150	4.35%	Short-term financing	-	-	Operating capital	-	None	None	-	94,083	141,126	Notes 4、12
2	Kunshan Chimei Materials Trading Corp.	Xi'an Jinyao hongtai New Materials Technology Co., Ltd	Other receivables - related parties	Yes	2,256	-	-	4.35%	Short-term financing	-	-	Operating capital	-	None	None	-	94,083	141,126	Notes 4、12
2	Kunshan Chimei Materials Trading Corp.	Zhejiang Zheng Jie Trading Co., Ltd	Other receivables - related parties	Yes	270,459	-	-	-	Business relationship	529,234	-	-	-	None	None	-	-	Notes 4、5、6、12	
3	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	256,617	256,617	221,718	-	Business relationship	169,426	-	-	-	None	None	-	169,426	318,293	Notes 7、8、13
4	Cheng Hui Trading Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	490,000	-	-	2.2%	Short-term financing	-	-	Operating capital	-	None	None	-	-	Notes 9	
5	Cheng Hui Investment Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	100,000	-	-	2.2%	Short-term financing	-	-	Operating capital	-	None	None	-	-	Notes 10	

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

(1)The Company is '0'.

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

Note 2: According to the Company's "Procedures for Provision of Loans", when nature of the loan is related to short-term financing, the ceiling on total loans granted shall no more than 60% of net assets in the latest financial statements of the Company, limit on loans to a single party ceiling on total loans is 40% of the Company's net assets. When nature of the loan is related to business transactions, the ceiling on total loans granted shall no more than 60% of net assets in the latest financial statements of the Company; the limit on loans granted to a single party shall no more than the amount of business transactions occurred between the creditor and borrower in the latest year.

Note 3: According to the Kunshan Chimei Materials Technology Co., Ltd.'s "Procedures for Provision of Loans", limit on loans to a single party ceiling on total loans is 40% of the Kunshan Chimei Materials Technology Co., Ltd.'s net assets. Ceiling on total loans is 60% of the Kunshan Chimei Material Technology Co., Ltd.'s net asset.

Note 4: According to the Kunshan Chimei Materials Trading Corp.'s "Procedures for Provision of Loans", loans are limited to Kunshan Chimei Materials Trading Corp.'s and wholly-owned subsidiaries, and do not be loaned to others. Limit on a single party ceiling on loans to total loans is 40% of the Kunshan Chimei Material Trading Corp.'s net assets, ceiling on total loan is 60% of the Kunshan Chimei Material Trading Corp.'s net assets.

Note 5: Kunshan Chimei Material Trading Corp and the companies are traded by triangle trade, and the amount of business transactions is calculated based on the total revenue.

Note 6: This is the summation of accounts receivables and the advance payment of inventory which resulted from the triangular trade conducted in Kunshan Chimei Material Trading Corp. The Group regarded it as a loan to the companies with business relationship.

Note 7: According to the Ningbo Cheng Mei Materials Technology Co., Ltd.'s "Procedures for Provision of Loans", when nature of the loan is related to business transactions, the ceiling on total loans granted shall no more than 40% of net assets in the latest financial statements of the Ningbo Cheng Mei Materials Technology Co., Ltd.; the limit on loans granted to a single party shall no more than the amount of business transactions occurred between the creditor and borrower in the latest year.

Note 8: The amount is the accounts receivable due from related parties that is past due a certain period of time over the normal credit term and is the other receivables transferred from loans granted based on the assessment.

Note 9: In accordance with Cheng Hui Trading Co., Ltd.'s "Procedures for Provision of Loans", loans are limited to wholly-owned parent company and subsidiaries, and do not loan to others.

Limits on total loan and a single party ceiling on loans to total loans is 40% of the Cheng Hui Trading Co., Ltd.'s net assets.

Note 10: In accordance with Cheng Hui Investment Co., Ltd.'s "Procedures for Provision of Loans", loans are limited to wholly-owned parent company and subsidiaries, and do not loan to others.

Limits on total loan and a single party ceiling on loans to total loans is 40% of the Cheng Hui Investment Co., Ltd.'s net assets.

Note 11: In December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. Therefore, KSCMMT is no longer included in the Group's consolidated financial statements.

Note 12: Due to KSCMS and XIHM both were the subsidiaries of KSCMMT, the Group lost its control over KSCMS and XIHM when the control over KSCMMT was lost. Therefore, KSCMS and XIHM are no longer included in the Group's consolidated financial statements.

Note 13: Ningbo Cheng Mei Materials Technology Co. Ltd. reclassified its accounts receivable due from Kunshan Chimei Material Trading Corp. as loans to others and transferred those accounts receivable to other receivables due to they had past due over a certain period.

Therefore, Ningbo Cheng Mei Materials Technology Co. Ltd.'s limit on loans to Kunshan Chimei Material Trading Corp. had exceeded the limit specified in Ningbo Cheng Mei Materials Technology Co. Ltd.'s "Procedures for Provision of Loans". As of March 18, 2020, the improvement plan is still under study.

Table 2

Expressed in thousands of NTD

Cheng Mei Materials Technology Corporation And Subsidiaries
Provision of endorsements and guarantees to others
Year ended December 31, 2019

Party being endorsed/guaranteed		Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2019	Outstanding endorsement/ guarantee amount at December 31, 2019	Actual amount drawn down	Amount of guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by guaranteees to parent company subsidiary	Provision of guarantees to the party in Mainland China	Footnote		
Number (Note 1)	Endorser/ guarantor																
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	4	\$	4,829,381	\$	1,199,200	\$	-	\$	-	12.42	\$	9,658,762	Y	N	Note 3,4
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	6		4,829,381		3,444,732		2,342,259		-	35.66		9,658,762	Y	N	Note 3,4,7
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	4		5,684,475		1,722,000		91,609		-	18.18		9,474,125	N	Y	Note 5,6,8

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

(1) The Company is '0'

(2) The subsidiaries are numbered in order starting from '1'. The same Company will have the same number.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

(1) Having business relationship.

(2) The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.

(4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

(5) Mutual guarantee of the trade as required by the construction contract.

(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: In accordance with the Group's related regulations, the limit on endorsements and guarantees for any single entity is 50% of the Company's net worth based on the latest financial statements.

Note 4: In accordance with the Group's related regulations, the limit on accumulated amount of transactions of endorsements and guarantees is the Company's net worth based on the latest financial statements.

Note 5: In accordance with Kunshan Chimei Materials Technology Co., Ltd.'s related regulations, the limit of endorsements and guarantees for any single entity is 60% of the Kunshan Chimei Materials Technology Co., Ltd.'s net worth based on the latest financial statements.

Note 6: In accordance with Kunshan Chimei Materials Technology Co., Ltd.'s related regulations, the limit of endorsements and guarantees for total accumulated amount is Kunshan Chimei Materials Technology Co., Ltd.'s net worth based on the latest financial statements.

Note 7: The Company's endorsement/guarantee amount to Kunshan Chimei Materials Technology Co., Ltd. Corp. is calculated based on the current shareholding ratio. Because Kunshan Chimei Materials Technology Co., Ltd. increased its capital in cash, the Company's shareholding ratio was decreased. The Company has set up an improvement plan and submitted to the audit committee. The Company implemented the improvement plan as scheduled.

Note 8: In December 2019, Kunshan Chimei Materials Technology Co., Ltd. increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of Kunshan Chimei Materials Technology Co., Ltd., the Group lost its control over Kunshan Chimei Materials Technology Co., Ltd. Therefore, Kunshan Chimei Materials Technology Co., Ltd. is no longer included in the Group's consolidated financial statements.

Cheng Mei Materials Technology Corporation And Subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2019

Table 3

Expressed in thousands of NTD

Securities held by Cheng Mei Materials Technology Corporation	Marketable securities SHIHLIEN FINE CHEMICALS CO., LTD.(Stock)	Relationship with the securities issuer None	General ledger account Non-current financial assets at fair value through other comprehensive income	As of December 31, 2019			
				Number of shares	Book value	Ownership (%)	Fair value
				16,667	\$ 147,643	6.54%	\$ 147,643
Cheng Hui Investment Co., Ltd.	JEOUTAI TECHNOLOGY CO., LTD.(Stock)	None	Non-current financial assets at fair value through other comprehensive income	381	-	Note	-
Cheng Hui Investment Co., Ltd.	JUN HONG OPTRONICS CORPORATION(Stock)	None	Non-current financial assets at fair value through other comprehensive income	2,500	9,363	Note	9,363
Cheng Hui Trading Co., Ltd.	JUN HONG OPTRONICS CORPORATION(Stock)	None	Non-current financial assets at fair value through other comprehensive income	3,400	12,734	Note	12,734

Note: The shareholding ratio is less than 5% and therefore will not be disclosed.

Cheng Mei Materials Technology Corporation And Subsidiaries
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more
Year ended December 31, 2019

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:										
Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship		Date of the original transaction	Amount	Reason for acquisition of real estate and status of the real estate Production line and warehouse N/A
						Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer			
Kunshan Chimei Materials Technology Co., Ltd.	Electrical equipment of clean room and warehouse	2018/10/30	RMB 146,966 thousands	RMB 89,482 thousands	CTCI Shanghai Co., Ltd.	None	None	None	None	Based on the price specified in the order

Cheng Mei Materials Technology Corporation And Subsidiaries

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

Year ended December 31, 2019

Table 5

Expressed in thousands of NTD

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
				(\$)					\$		
Cheng Mei Materials Technology Co., Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Sales	2,906,266	(36%)	-	-	-	464,737	24%	Note2
Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Sales	735,305	(9%)	-	-	-	52,995	3%	Note1
Cheng Mei Materials Technology Co., Ltd.	Innolux Corporation	Related party	Sales	1,704,889	(21%)	-	-	-	668,132	34%	
Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Related party	Sales	674,639	(8%)	-	-	-	387,872	20%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Parent	Sales	152,278	(4%)	-	-	-	46,101	5%	Note2
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister	Sales	169,426	(5%)	-	-	-	2,130	0%	Note 1
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Optoelectronics Ltd.	Related party	Sales	1,300,220	(35%)	-	-	-	534,302	57%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Related party	Sales	271,926	(7%)	-	-	-	89,766	10%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Display Ltd.	Related party	Sales	362,087	(10%)	-	-	-	189,779	20%	
Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Subsidiary	Sales	338,499	(5%)	-	-	-	85,941	4%	Note 1
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Sales	607,333	(9%)	-	-	-	296,148	15%	Note 1
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Purchases	654,128	11%	-	-	-	229,832	(12%)	Note 1

Note 1: Kunshan Chimei Materials Technology Co., Ltd. has not been a subsidiary of the Company since December 24, 2019.

Note 2: The Company has reversed the sales revenue (from sales of materials and supplies) and operating cost (from purchase of goods) arising from raw material processing which are provided by Ningbo Cheng Mei Materials Technology Co., Ltd.
The eliminated amount for the year ended December 31, 2019 was \$112,437.

Cheng Mei Materials Technology Corporation And Subsidiaries

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more

December 31, 2019

Table 6

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable \$ 464,737	4.37	\$ -	-	\$ 174,372	\$ -
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Associates	Accounts receivable 52,995	6.82	12,080	Dunning	-	-
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Associates	Other receivable 583,673	-	-	-	80,416	-
Cheng Mei Materials Technology Corporation	Innolux Corporation	Related party	Accounts receivable 668,132	3.12	-	-	176,985	-
Cheng Mei Materials Technology Corporation	Foshan Innolux Optoelectronics Ltd	Related party	Accounts receivable 387,872	3.19	-	-	68,159	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Associates	Other receivable 221,718	-	-	-	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Optoelectronics Ltd	Related party	Accounts receivable 534,302	2.98	-	-	104,742	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Display Ltd	Related party	Accounts receivable 189,779	2.53	-	-	44,983	-

Cheng Mei Materials Technology Corporation And Subsidiaries

Significant inter-company transactions during the reporting periods

Year ended December 31, 2019

Expressed in thousands of NTD

Table 7

Details of significant inter-company transactions reaching NT\$ 10 million or more are as follows:

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction	
						Transaction terms (Note 3)	Percentage of consolidated total operating revenues or total assets (Note 4)
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Sales	\$ 2,906,266	-	20%
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Accounts receivable	464,737	-	3%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Sales	53,367	-	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Accounts receivable	34,487	-	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Other receivable	85,000	-	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Sales	735,305	-	5%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Other revenue	60,357	-	0%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	1	Other receivable	206,000	-	1%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Investment Co., Ltd.	1	Other receivable	146,870	-	1%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	1	Endorsement / Guarantee	1,199,200	-	8%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Sales	152,278	-	1%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Accounts receivable	46,101	-	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Sales	169,426	-	1%
2	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	3	Sales	338,499	-	2%

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

(1)Parent company is '0'.

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

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

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Prices and terms were determined in accordance with mutual agreements.

Note 4: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Cheng Mei Materials Technology Corporation And Subsidiaries
Information on investees (not including investees in Mainland China)

Year ended December 31, 2019

Expressed in thousands of NTD

Table 8

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019		Net profit (loss) of the investee for the Year ended December 31, 2019 (Note 1)	Investment income(loss) recognised by the Company for year ended December 31, 2019	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares (in thousand)	Ownership (%)			
Cheng Mei Materials Technology Corporation	Cheng Mei Materials Technology (SAMOA) Corporation	Samoa	Investment company	\$ 431,482	\$ 431,482	13,300	100%	\$ 795,498	\$ 49,170	Note 1
Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	205,000	205,000	20,500	68.33%	13,337 (	75,906) (	Note 1
Cheng Mei Materials Technology Corporation	Chi Mei Materials Technology Investment Co., Ltd.	Samoa	Investment company	4,447,763	4,447,763	146,500	100%	3,637,806	87,091	Note 1
Cheng Mei Materials Technology Corporation	Cheng Hui Investment Co., Ltd.	Taiwan	Investment company	5,000	350,000	500	100%	(123,657) (	46,524) (	Note 1
Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	Taiwan	Trading company	5,000	1,001,000	500	100%	(149,198) (	23,200) (	Note 1
Cheng Hui Investment Co., Ltd.	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	33,000	33,000	3,300	11%	1,226 (	75,906)	Note 1
Cheng Hui Trading Co., Ltd.	Mao Fong Group Co., Ltd.	Samoa	Investment company	30,870	-	1,000	100%	28,792 (	177)	Note 1

Note 1: The financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 2: According to the regulations, the amount recognised for investment profit or loss of the Company could be exempt from disclosure.

Cheng Mei Materials Technology Corporation And Subsidiaries
Information on investments in Mainland China
Year ended December 31, 2019

Table 9

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remitance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee as of December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Book value of investments in Mainland China as of December 31, 2019		Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Taiwan to Mainland China /Amount remitted back to December 31, 2019	Mainland China to Taiwan					2019	2019		
Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacture and sale	\$ 568,026	2	\$ 398,734	-	\$ -	\$ 398,734	\$ 49,195	100.00	\$ 49,195	\$ 795,732	\$ -	-	Note 2
Kunshan Chimei Materials Technology Co., Ltd.	Electronic component manufacture and sale	10,870,797	2	4,392,070	-	-	4,392,070	(108,111)	38.40	(53,336)	3,638,064	-	-	Note 2
Kunshan Chimei Materials Trading Corp.	Trading	215,250	2	-	-	-	-	83,468	38.40	41,317	90,320	-	-	Note 2
Xi'an Jinyahongtai New Materials Technology Co., Ltd.	Electronic component manufacture and sale	8,825	2	-	-	-	-	(1,947)	38.40	(954)	1,349	-	-	Note 2
Kunshan Shin Mao Fong International Trading Co., Ltd.	Trading	29,980	2	-	29,080	-	29,080	(55)	100.00	(55)	29,808	-	-	Note 2

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in Cheng Mei Materials Technology (Samoa) Corporation, Chi Mei Materials Technology Investment Co., Ltd and Mao Fong Group Co., Ltd. in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: The investment profit or loss was recognised basing on the financial statements that were audited and attested by R.O.C. parent company's CPA.

Note 3: The numbers in this table are expressed in New Taiwan dollars. Amount denominated in foreign currencies related to income and expenses in this table are re-translated at average exchange rates of NTD 30.92 to US\$1 from January 1, 2019 to December 31, 2019, otherwise are re-translated at the exchange rates of NTD 29.98 to US\$1 prevailing at the end of the financial reporting period.

Note 4: The Ceiling is calculated based on 60% of the consolidated net value.

Cheng Mei Materials Technology Corporation And Subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2019

Expressed in thousands of NTD

Table 10

Investee in Mainland China	Sale (purchase)		Property transaction		Maximum outstanding Accounts receivable		Provision of endorsements/guarantees or collaterals		Financing			
	Amount	%	Amount	%	Balance at December 31, 2019	%	Balance at December 31, 2019	Purpose	Maximum balance during the year ended December 31, 2019	Balance at December 31, 2019	Interest rate	Interest during the year ended December 31, 2019
												Others
Ningbo Cheng Mei Materials Technology Co., Ltd.	\$ 2,906,266	36%	\$ -	-	\$ 464,737	24%	\$ -	-	\$ -	\$ -	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	(152,278)	2%	-	-	(46,101)	4%	-	-	-	-	-	-
Kunshan Chimei Materials Technology Co., Ltd.	735,305	9%	-	-	52,995	3%	3,444,732	Endorsement / Guarantee	584,307	584,307	-	-
												Other revenue \$ 60,357
												Other receivables 583,673

Note: The Company has reversed the sales revenue (from sales of materials and supplies) and operating cost (from purchase of goods) arising from raw material processing which are provided by Ningbo Cheng Mei Materials Technology Co., Ltd.
The eliminated amount for the year ended December 31, 2019 was \$112,437.