

English Translation of a Report and Financial Statements Originally Issued in Chinese

**KING YUAN ELECTRONICS CO., LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
WITH
INDEPENDENT AUDITOR'S REPORT TRANSLATED FROM CHINESE**

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2019 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

King Yuan Electronics Co., Ltd.

Chairman: C. K. Lee

March 13, 2020

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of King Yuan Electronics Co., Ltd.

Opinion

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2019 and 2018, and their consolidated financial performance and cash flows for the years ended December 31, 2019 and 2018, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effectively by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of King Yuan Electronics Co., Ltd. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2019 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

King Yuan Electronics Co., Ltd. and its subsidiaries recognized NT\$25,539,437 thousand as net sales. Their main activities are providing testing and assembly services that represented 93%, or NT\$23,778,126 thousand in the amount, of the net operating revenues.

Since the primary activities of King Yuan Electronics Co., Ltd. and its subsidiaries are providing testing and assembly services, and the services comprise various wafers/integrated circuits testing and assembly processing and rental of machinery, timing of revenue recognition may vary due to varied nature of revenues that increases the complexity of the revenue recognition. Therefore, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal control relating to the timing of revenue recognition, analyzing the reasonableness of gross profit margin by products, performing cutoff testing for a period before and after the balance sheet date on a sampling basis, performing test of details on selected samples, reviewing the significant terms of sales agreements and examining relevant delivery documents, and reviewing the selected samples of the quantity, specification, period and relevant documents of machinery services.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 4 and Note 6 in notes to the consolidated financial statements.

Extension of useful lives of Property, Plant and Equipment

On March 14, 2019, the Board of Directors approved to extend the estimated useful lives of certain machinery equipment effective from January 1, 2019. The change in the accounting estimate decreased depreciation expenses by NT\$995,843 thousands for the year ended December 31, 2019. King Yuan Electronics Co., Ltd. and its subsidiaries belong to the semiconductor industry, which is highly capital intensive. Property, plant and equipment of King Yuan Electronics Co., Ltd. and its subsidiaries represented 67% of its consolidated total assets. Accordingly, the reasonableness of the change in the useful lives of machinery equipment will affect the production costs and profitability of King Yuan Electronics Co., Ltd. and its subsidiaries significantly. Therefore, we determined the matter to be a key audit matter.

Our auditing procedures include (but are not limited to) obtaining a representation letter issued by King Yuan Electronics and its subsidiaries, assessing the reasonableness of the change in the estimated useful lives since January 1, 2019, obtaining the appraisal report issued by the external appraiser and reviewing whether the conclusion of the appraisal report is in line with the assumptions used by King Yuan Electronics Co., Ltd. and its subsidiaries, obtaining the adjusted property list and confirming the completeness of the list, checking the accuracy of the remaining useful lives of the machinery equipment and vouching the accrued deprecation expenses, etc., in order to ensure consistency, selecting samples, during the year end substantive testing, to recalculate the depreciation and amortization expenses based on the revised useful lives, perform physical count, and inspect related documents prepared by each department for the reassessment of the estimated useful lives.

We also considered the appropriateness of the disclosures of plant, property and equipment. Please refer to Note 4, Note 5 and Note 6 in notes to the consolidated financial statements.

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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of the 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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate King Yuan Electronics Co., Ltd. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of King Yuan Electronics Co., Ltd. and its subsidiaries.

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 auditing standards generally accepted in the Republic of China 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of King Yuan Electronics Co., Ltd. and its subsidiaries.
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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. and its subsidiaries. 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 King Yuan Electronics Co., Ltd. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, 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 King Yuan Electronics Co., Ltd. and its subsidiaries 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 2019 consolidated financial statements 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.

Others

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

Kuo, Shao-Pin

Fuh, Wen-Fun

Ernst & Young, Taiwan
March 13, 2020

Notice to Readers

- The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in 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, Ernst & Young 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.

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2019 and 2018

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2019	%	December 31, 2018	%
Current assets					
Cash and cash equivalents	4, 6(1)	\$6,166,005	11	\$4,786,626	10
Financial assets at fair value through profit or loss-current	4, 6(2)	-	-	101,461	-
Financial assets at fair value through other comprehensive income-current	4, 6(3)	30,114	-	15,989	-
Contract assets-current	4, 6(17), 6(18), 7	126,182	-	289,427	1
Notes receivable, net	4, 6(4), 6(18)	4,268	-	13,844	-
Accounts receivable, net	4, 6(5), 6(18)	4,936,281	9	4,418,689	9
Accounts receivable from related parties, net	4, 6(5), 6(18), 7	911,027	2	769,731	2
Other receivables		278,134	1	233,559	1
Other receivables from related parties	4, 7	7,956	-	11,337	-
Inventories, net	4, 6(6)	1,081,035	2	1,137,152	2
Prepayments	6(7)	272,607	1	656,455	2
Other current assets		77,370	-	191,099	-
Other financial assets-current	8	4	-	4	-
Total current assets		13,890,983	26	12,625,373	27
Non-current assets					
Financial assets at fair value through other comprehensive income-non-current	4, 6(3)	2,425,166	5	1,752,480	4
Investments accounted for using the equity method	4, 6(8)	65,228	-	62,352	-
Property, plant and equipment	4, 6(9), 7, 8	36,890,887	67	31,907,296	68
Right-of-use asset	4, 6(19)	1,373,907	2	-	-
Intangible assets	4, 6(10), 6(12), 6(25)	73,795	-	171,062	-
Deferred tax assets	4, 6(22), 6(23)	229,882	-	405,398	1
Other financial assets-non-current	8	113,125	-	109,912	-
Other non-current assets	4, 6(11)	16,176	-	121,886	-
Total non-current assets		41,188,166	74	34,530,386	73
Total assets		<u>\$55,079,149</u>	<u>100</u>	<u>\$47,155,759</u>	<u>100</u>

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

(continued)

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2019 and 2018

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2019	%	December 31, 2018	%
Current liabilities					
Short-term loans	4, 6(13), 9	\$493,383	1	\$111,879	-
Contract liabilities-current	4, 6(17), 7	68,330	-	130,203	-
Notes payable		1,633	-	50,156	-
Accounts payable		1,054,963	2	1,183,765	2
Accounts payable to related parties	7	30,713	-	12,391	-
Other payables		2,973,602	5	2,276,173	5
Other payables to related parties	7	91,048	-	80,831	-
Payables on equipment		963,512	2	800,724	2
Current tax liabilities	4, 6(23)	723,277	1	291,830	1
Lease liabilities-current	4, 6(19)	792,980	1	-	-
Current portion of long-term liabilities	4, 6(14), 8, 9	403,605	1	184,284	-
Other current liabilities		303,923	1	279,668	1
Total current liabilities		7,900,969	14	5,401,904	11
Non-current liabilities					
Long-term loans	4, 6(14), 8, 9	19,924,440	36	16,750,860	36
Deferred tax liabilities	4, 6(23)	39,921	-	-	-
Lease liabilities-non-current	4, 6(19)	485,263	1	-	-
Net defined benefit liabilities	4, 6(15)	528,169	1	481,570	1
Guarantee deposits		1,933	-	1,573	-
Total non-current liabilities		20,979,726	38	17,234,003	37
Total liabilities		28,880,695	52	22,635,907	48
Equity attributable to owners of the parent company					
Share capital	4, 6(16)				
Common stock		12,227,451	22	12,227,451	26
Capital surplus	4, 6(16)	4,832,721	9	4,844,536	10
Retained earnings	4, 6(16)				
Legal reserve		2,359,299	4	2,179,765	4
Special reserve		803,172	2	431,239	1
Undistributed earnings		6,371,702	12	5,597,293	12
Total retained earnings		9,534,173	18	8,208,297	17
Other equity	4	(402,406)	(1)	(803,173)	(1)
Equity attributable to owners of the parent company		26,191,939	48	24,477,111	52
Non-controlling interests	4, 6(16)	6,515	-	42,741	-
Total equity		26,198,454	48	24,519,852	52
Total liabilities and equities		\$55,079,149	100	\$47,155,759	100

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

English Translation of Financial Statements Originally Issued in Chinese
KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2019 and 2018
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2019	%	2018	%
Net sales	4, 6(17), 7	\$25,539,437	100	\$20,815,369	100
Operating costs	4, 6(6), 6(9), 6(10), 6(15), 6(19), 6(20), 7	(18,523,521)	(73)	(15,451,671)	(74)
Gross profit		<u>7,015,916</u>	<u>27</u>	<u>5,363,698</u>	<u>26</u>
Operating expenses	4, 6(9), 6(10), 6(15), 6(18), 6(19), 6(20), 7				
Selling expenses		(398,765)	(2)	(331,677)	(2)
Administrative expenses		(1,516,321)	(6)	(1,400,283)	(7)
Research and development expenses		(1,035,207)	(4)	(909,086)	(4)
Expected credit losses		(20,609)	-	(2,971)	-
Total operating expenses		<u>(2,970,902)</u>	<u>(12)</u>	<u>(2,644,017)</u>	<u>(13)</u>
Operating income		<u>4,045,014</u>	<u>15</u>	<u>2,719,681</u>	<u>13</u>
Non-operating income and expenses	4, 6(8), 6(9), 6(12), 6(21), 7				
Other income		188,133	1	91,280	-
Other gains and losses		(20,947)	-	324,961	2
Finance costs		(311,673)	(1)	(204,987)	(1)
Share of profit of associates accounted for using the equity method		14,336	-	(541,377)	(3)
Total non-operating income and expenses		<u>(130,151)</u>	<u>-</u>	<u>(330,123)</u>	<u>(2)</u>
Net income before income tax		3,914,863	15	2,389,558	11
Income tax expense	4, 6(23)	<u>(873,379)</u>	<u>(3)</u>	<u>(595,668)</u>	<u>(2)</u>
Net income		<u>3,041,484</u>	<u>12</u>	<u>1,793,890</u>	<u>9</u>
Other comprehensive income	4, 6(22)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the defined benefit plan		(57,525)	-	(41,788)	-
Unrealized gains or losses from equity instruments investments measured at fair value through other comprehensive income		687,206	3	(164,411)	(1)
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		(136,555)	(1)	17,118	-
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operations		(186,914)	(1)	(81,443)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss		37,373	-	24,851	-
Other comprehensive income, net of tax		<u>343,585</u>	<u>1</u>	<u>(245,673)</u>	<u>(1)</u>
Total comprehensive income		<u>\$3,385,069</u>	<u>13</u>	<u>\$1,548,217</u>	<u>8</u>
Net income attributable to :					
Owners of the parent company		\$3,041,566	12	\$1,795,344	9
Non-controlling interests		(82)	-	(1,454)	-
		<u>\$3,041,484</u>	<u>12</u>	<u>\$1,793,890</u>	<u>9</u>
Total comprehensive income attributable to :					
Owners of the parent company		\$3,385,203	13	\$1,549,371	8
Non-controlling interests		(134)	-	(1,154)	-
		<u>\$3,385,069</u>	<u>13</u>	<u>\$1,548,217</u>	<u>8</u>
Earning per share(NT\$)	4, 6(24)				
Basic Earnings Per Share		<u>\$2.49</u>		<u>\$1.47</u>	
Diluted Earnings Per Share		<u>\$2.47</u>		<u>\$1.46</u>	

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

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2019 and 2018

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent company									Non-controlling interests	Total Equity
	Common stock	Capital surplus	Retained earnings			Other equity			Equity attributable to owners of the parent		
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	Unrealized gains (losses) from available-for sale financial assets			
Balance as of January 1, 2018	\$12,202,383	\$5,327,372	\$1,956,400	\$386,010	\$5,403,995	\$(235,236)	\$-	\$5,412	\$25,046,336	\$5,658	\$25,051,994
Effects of retrospective application and retrospective restatement	-	-	-	-	448,328	-	(393,955)	(5,412)	48,961	-	48,961
Balance at beginning of period after adjustments	12,202,383	5,327,372	1,956,400	386,010	5,852,323	(235,236)	(393,955)	-	25,095,297	5,658	25,100,955
Appropriation and distribution of 2017 earnings:											
Legal reserve	-	-	223,365	-	(223,365)	-	-	-	-	-	-
Special reserve	-	-	-	45,229	(45,229)	-	-	-	-	-	-
Cash dividends	-	(488,511)	-	-	(1,709,789)	-	-	-	(2,198,300)	-	(2,198,300)
Share of changes in net assets of associates and joint ventures accounted for using equity method	-	(33,755)	-	-	-	-	-	-	(33,755)	-	(33,755)
Profit for the year ended December 31, 2018	-	-	-	-	1,795,344	-	-	-	1,795,344	(1,454)	1,793,890
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(41,788)	(56,892)	(147,293)	-	(245,973)	300	(245,673)
Total comprehensive income	-	-	-	-	1,753,556	(56,892)	(147,293)	-	1,549,371	(1,154)	1,548,217
Conversion of convertible bonds	25,068	39,430	-	-	-	-	-	-	64,498	-	64,498
Non-controlling interests	-	-	-	-	-	-	-	-	-	38,237	38,237
Disposal of equity instruments investments measured at fair value through other comprehensive income	-	-	-	-	(30,203)	-	30,203	-	-	-	-
Balance as of December 31, 2018	\$12,227,451	\$4,844,536	\$2,179,765	\$431,239	\$5,597,293	\$(292,128)	\$(511,045)	\$-	\$24,477,111	\$42,741	\$24,519,852
Balance as of January 1, 2019	\$12,227,451	\$4,844,536	\$2,179,765	\$431,239	\$5,597,293	\$(292,128)	\$(511,045)	\$-	\$24,477,111	\$42,741	\$24,519,852
Appropriation and distribution of 2018 earnings:											
Legal reserve	-	-	179,534	-	(179,534)	-	-	-	-	-	-
Special reserve	-	-	-	371,933	(371,933)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,650,706)	-	-	-	(1,650,706)	-	(1,650,706)
Profit for the year ended December 31, 2019	-	-	-	-	3,041,566	-	-	-	3,041,566	(82)	3,041,484
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(57,525)	(149,489)	550,651	-	343,637	(52)	343,585
Total comprehensive income	-	-	-	-	2,984,041	(149,489)	550,651	-	3,385,203	(134)	3,385,069
Changes in ownership interests in subsidiaries	-	(11,815)	-	-	(7,854)	-	-	-	(19,669)	(36,092)	(55,761)
Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	395	-	(395)	-	-	-	-
Balance as of December 31, 2019	\$12,227,451	\$4,832,721	\$2,359,299	\$803,172	\$6,371,702	\$(441,617)	\$39,211	\$-	\$26,191,939	\$6,515	\$26,198,454

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018

(Amounts in thousands of New Taiwan Dollars)

Description	2019	2018	Description	2019	2018
Cash flows from operating activities :			Cash flows from investing activities :		
Profit before tax from continuing operations	\$3,914,863	\$2,389,558	Proceeds from disposal of financial assets at fair value through other comprehensive income	\$-	\$1,113
Adjustments for :			Proceeds from capital return of financial assets at fair value through other comprehensive income	395	8,625
The profit or loss items which did not affect cash flows:			Proceeds from disposal of financial assets at fair value through profit or loss	101,885	-
Depreciation	6,971,919	6,686,191	Acquisition of investments accounted for using the equity method	-	(245,408)
Amortization	87,531	40,203	Acquisition of property, plant and equipment	(11,621,595)	(8,680,807)
Expected credit loss	20,609	2,971	Proceeds from disposal of property, plant and equipment	121,535	271,099
Gains on financial assets and liabilities at fair value through profit or loss	(424)	(418)	Increase in refundable deposits	(192)	-
Interest expenses	311,673	204,987	Decrease in refundable deposits	-	29,842
Interest income	(12,617)	(22,217)	Acquisition of intangible assets	(26,418)	(23,774)
Dividend income	(38,398)	(880)	Net cash outflows from acquisition of subsidiaries	-	(167,009)
Investment (gain) loss accounted for using the equity method	(14,336)	541,377	Increase in other financial assets	(3,213)	(9,923)
Gain on disposal of property, plant and equipment	(8,338)	(165,812)	Decrease in other prepayments	-	2,142
Gain on disposal of investments accounted for using the equity method	-	(74,427)	Dividend received	49,858	10,940
Impairment of non-financial assets	91,181	-	Net cash used in investing activities	(11,377,745)	(8,803,160)
Unrealized foreign exchange (gain) loss	(234,047)	72,386			
Changes in operating assets and liabilities :					
Contract Assets	163,245	(289,427)			
Notes receivable	9,576	(3,188)	Cash flows from financing activities :		
Accounts receivable	(538,180)	82,660	Increase in short-term loans	780,438	111,142
Accounts receivable from related parties	(141,296)	(96,583)	Decrease in short-term loans	(377,519)	(413,652)
Other receivables	(73,767)	9,337	Borrowing in long-term loans	21,591,057	21,516,981
Other receivables from related parties	3,264	145,199	Repayments of long-term loans	(17,999,744)	(19,017,327)
Inventories	44,717	(209,119)	Increase in guarantee deposits	360	449
Prepayments	(8,927)	(282,075)	Cash payment for the principal portion of the lease liabilities	(28,023)	-
Other current assets	113,729	82,154	Cash dividends	(1,650,706)	(2,198,300)
Contract liabilities	(61,873)	85,963	Acquisition of ownership interests in subsidiaries	(37,070)	-
Notes payable	(48,523)	38,341	Interest paid	(264,581)	(201,192)
Accounts payable	(128,802)	(11,431)	Net cash provided by (used in) financing activities	2,014,212	(201,899)
Accounts payable to related parties	18,322	5,155	Effect of changes in exchange rate on cash and cash equivalents	(90,580)	(31,174)
Other payables	673,593	(204,160)	Net increase (decrease) in cash and cash equivalents	1,379,379	(608,403)
Other payables to related parties	13,937	48,768	Cash and cash equivalents at the beginning of the year	4,786,626	5,395,029
Other current liabilities	24,255	9,025	Cash and cash equivalents at the end of the year	\$6,166,005	\$4,786,626
Accrued pension liabilities	(10,926)	(6,842)			
Cash generated from operating activities	11,141,960	9,077,696			
Interest received	17,209	23,704			
Income tax paid	(325,677)	(673,570)			
Net cash provided by operating activities	10,833,492	8,427,830			

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

1. Organization and Operation

King Yuan Electronics Co., Ltd. ("KYEC") was incorporated under the Company Law of the Republic of China ("R.O.C") on May 28, 1987, and commenced operations on July 23, 1987. The Company primarily engages in the business of design, manufacturing, selling, testing and assembly service of integrated circuits, and also engages in manufacturing and selling of IC Monitoring Burn-In machinery and related components. On May 9, 2001, the shares of KYEC were listed on the Taiwan Stock Exchange. KYEC's registered office and the main business location is at No. 81, Sec. 2, Gongdaowu Road, Hsinchu City 300, Republic of China (R.O.C.).

2. Date and Procedures of Authorization of Financial Statements for Issue

The accompanying consolidated financial statements of KYEC and its subsidiaries ("the Company") were approved and authorized for issue by the Board of Directors on March 13, 2020.

3. Newly Issued or Revised Standards and Interpretations

- (1) Change in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2019. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

A. IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Company follows the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

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- a. Please refer to Note 4 for the accounting policies before or after January 1, 2019.
- b. For the definition of a lease, the Company elected not to reassess whether a contract is, or contains, a lease on January 1, 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after January 1, 2019, the Company needs to assess whether contracts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assessed most of the contracts are, or contain, leases. The new definition has no significant impact on the Company.
- c. The Company as lessee: The Company elected not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(a) Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Company measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. In addition, the Company chose, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Company's right-of-use asset and lease liability increased by NT\$522,423 thousand, and NT\$522,423 thousand, respectively.

In addition, on January 1, 2019, for leases that had previously been classified as operating leases applying IAS 17 and whose rent had been paid in full, the Company reclassified the long-term rental prepayment of NT\$106,246 thousand to the right-of-use asset.

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In accordance with the transition provision in IFRS 16, the Company used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - ii. Rely on its assessment of whether leases are onerous immediately before January 1, 2019 as an alternative to performing an impairment review.
 - iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of January 1, 2019.
 - iv. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.
 - v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.
- (b) Please refer to Note 4.(14) and Note 6.(19) for additional disclosures required by IFRS 16.
- (c) As at January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:
- i. The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 1.8843%.
 - ii. The difference of the amount NT\$259,962 thousand between: 1) operating lease commitments disclosed applying IAS 17 as at December 31, 2018, discounted using the incremental borrowing rate on January 1, 2019; and 2) lease liabilities recognized in the balance sheet as at January 1, 2019 is presented as follows:

Operating lease commitments disclosed applying IAS 17 as at December 31, 2018	<u>\$300,770</u>
Discounted using the incremental borrowing rate on January 1, 2019	\$262,461
Add: adjustments to the options to extend the lease that is reasonably certain to exercise	<u>259,962</u>
The carrying value of lease liabilities recognized as at January 1, 2019	<u>\$522,423</u>

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- (d) The Company as lessor: The Company has not made any adjustments. Please refer to Note 4. (14) and Note 6. (19) for the information relating to the lessor.

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
A	Definition of a Business - Amendments to IFRS 3	January 1, 2020
B	Definition of Material - Amendments to IAS 1 and 8	January 1, 2020
C	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	January 1, 2020

A. Definition of a Business - Amendments to IFRS 3

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

B. Definition of Material - Amendments to IAS 1 and 8

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

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C. Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

This amendment includes a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

This amendments include:

A. Highly probable requirement

When assessing whether a forecast transaction is highly probable, an entity should assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

B. Prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or the hedging instrument are based is not altered as a result of the interest rate benchmark reform.

C. IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80% ~ 125%) for hedging relationships directly affected by the interest rate benchmark reform.

D. Separately identifiable risk components

For hedges of a non-contractually specified benchmark component of the interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

This amendment also includes the end of application of the exceptions requirements of the amendments.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual beginning on or after January 1, 2020 and have no material impact on the Company.

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- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
A	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B	IFRS 17 “Insurance Contracts”	January 1, 2021
C	Classification of Liabilities as Current or Non-current - Amendments to IAS 1	January 1, 2022

- A. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)

The amendments address the inconsistency between the requirements in IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 “Business Combinations” between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

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B. IFRS 17 “Insurance Contracts”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model. Under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (1) estimates of future cash flows;
- (2) discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (3) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. Classification of Liabilities as Current or Non-current – Amendment to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date when the Company’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. All other new or amended standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and TIFRS as endorsed by FSC.

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Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The accompanying consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

Basis of Consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a. the contractual arrangement with the other vote holders of the investee;
- b. rights arising from other contractual arrangements;
- c. the Company’s voting rights and potential voting rights.

KYEC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date the Company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period with the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries 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.

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If the Company loses control of a subsidiary, it:

- a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- b. derecognizes the carrying amount of any non-controlling interest;
- c. recognizes the fair value of the consideration received;
- d. recognizes the fair value of any investment retained;
- e. recognizes any surplus or deficit in profit or loss; and
- f. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership	
			2019.12.31	2018.12.31
KYEC	KYEC USA Corp.	Sales agent and business communication in USA	100.00	100.00
KYEC	KYEC Investment International Co., Ltd.	General investing	100.00	100.00
KYEC	KYEC Technology Management Co., Ltd.	General investing	100.00	100.00
KYEC	KYEC Japan K.K.	Manufacturing and sales of electronic parts and components, sales agent and business communication in Japan	89.83	89.83
KYEC	KYEC SINGAPORE PTE. Ltd.	Sales agent and business communication in Southeast Asia and Europe	100.00	100.00
KYEC	King Ding Precision Incorporated Company	Manufacturing, selling and wholesale of electronics parts and components and repairing of electronics related products	100.00 (Note 1)	48.94
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	94.02	94.02
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	5.98	5.98
KYEC Microelectronics Co., Ltd.	King Long Technology (Suzhou) Ltd.	Sales and manufacturing of components of automotive data processing machinery, solid memory parts, monitoring burn-in machinery, and testing and assembly service of integrated circuits	100.00	100.00

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Investor	Subsidiary	Business nature	Percentage of Ownership	
			2019.12.31	2018.12.31
KYEC Investment International Co., Ltd.	Sino-Tech Investment Co., Ltd.	General investing	100.00	100.00
KYEC Investment International Co., Ltd.	Strong Outlook Investments Ltd.	General investing	100.00	100.00
Sino-Tech Investment Co., Ltd.	Suzhou Zhengkuan Technology Ltd.	Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, components of automotive data processing machinery, solid memory parts, and monitoring burn-in machinery	- (Note2)	61.88
Strong Outlook Investments Ltd.	Suzhou Zhengkuan Technology Ltd.	Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, components of automotive data processing machinery, solid memory parts, and monitoring burn-in machinery	- (Note2)	38.12
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, components of automotive data processing machinery, solid memory parts, and monitoring burn-in machinery	100.00 (Note2)	-

Note1:

KYEC acquired 48.94% ownership and more than half seats of the Board of Directors of King Ding Precision Incorporated Company in November 2018. Therefore, control over King Ding Precision Incorporated Company was obtained. KYEC acquired the remaining ownership of King Ding Precision Incorporated Company in January 2019, and therefore, 100% ownership was obtained.

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Note2:

For the purpose of reorganization, the ownership of Suzhou Zhengkuan Technology Ltd. which was previously held by Sino-Tech Investment Co., Ltd. and Strong Outlook Investments Ltd., was transferred to King Long Technology (Suzhou) Ltd. Thereafter, Sino-Tech Investment Co., Ltd. and Strong Outlook Investments Ltd. entered the liquidation process in December 2019.

Foreign currency transactions

The Company's consolidated financial statements are presented in NT\$, which is also the parent company's functional currency. Each entity in the Company determines its functional currency upon its primary economic environment and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IFRS 9 "Financial Instruments" are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

- A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

Current and non-current distinction

An asset is classified as current when:

- A. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. the Company holds the asset primarily for the purpose of trading;
- C. the Company expects to realize the asset within twelve months after the reporting period; or
- D. the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- A. the Company expects to settle the liability in its normal operating cycle;
- B. the Company holds the liability primarily for the purpose of trading;
- C. the liability is due to be settled within twelve months after the reporting period; or
- D. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within twelve months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IFRS 9 “Financial Instruments” are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- a. the Company’s business model for managing the financial assets and
- b. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- a. purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- b. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

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- b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income is described as below:

- a. A gain or loss on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- b. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- c. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - (a). purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - (b). financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets are classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets are measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

B. Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

- a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b. the time value of money; and
- c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- a. at an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

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- b. at an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- c. for trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.
- d. For lease receivables arising from transactions within the scope of IFRS 16 (before January 1, 2019: IAS 17), the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

C. Derecognition of financial assets

A financial asset is derecognized when:

- a. the rights to receive cash flows from the asset have expired.
- b. the Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- c. the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

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Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 “Financial Instruments”.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

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Financial liabilities

Financial liabilities within the scope of IFRS 9 “Financial Instruments” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. Gains or losses on the subsequent measurement of liabilities held for trading including interest paid are recognized in profit or loss.

A financial liability is classified as held for trading if:

- a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- a. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- b. a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instrument

The Company uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as assets or liabilities at fair value through profit or loss except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

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Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of hedges, which is recognized in either profit or loss or equity according to types of hedges used.

When the host contracts are either non-financial assets or liabilities, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not designated at fair value through profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a. in the principal market for the asset or liability, or
- b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on weighted average method

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

Investments accounted for using the equity method

The Company's investment in its associates is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such

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changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new shares, and the Company's interest in an associate or a joint venture is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 "Investments in Associates and Joint Ventures". If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 "Impairment of Assets". In determining the value in use of the investment, the Company estimates:

- A. its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- B. the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 "Impairment of Assets".

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining

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investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, Plant and Equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and facilities	20~31 years
Plant equipment	5~16 years
Machinery and equipment	2~ 8 years
Transportation equipment	3~ 6 years
Office equipment	3~ 5 years
Right-of-use assets (Note)	6~ 58 years
Leased assets	3~11 years
Leasehold improvements	10 years

Note:

The Company reclassified the lease assets to right-of-use assets after the adoption of IFRS 16 from January 1, 2019.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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Leases

The accounting policy from January 1, 2019 as follows:

For contracts entered on or after January 1, 2019, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the contract, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset;
and
- (b) the right to direct the use of the identified asset.

The Company elected not to reassess whether a contract is, or contains, a lease on January 1, 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximizing the use of observable information.

A. The Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement

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date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company measures the lease liability on an amortized cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use asset applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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The Company applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements of comprehensive income.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

B. The Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and presents them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy before January 1, 2019 as follows:

A. The Company as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

B. The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of

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ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A. Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Company can demonstrate:

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- a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. its intention to complete and its ability to use or sell the asset;
- c. how the asset will generate future economic benefits;
- d. the availability of resources to complete the asset; and
- e. the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

B. Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3~5 years).

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, The Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, The Company estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

Treasury shares

Acquisitions of the shares of the Company (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration, if reissues, is recognized in capital surplus under equity.

When the retirement of treasury shares, capital surplus – share premiums and share capital are debited proportionately, gains on retirement of treasury shares should be recognized under existing capital surplus arising from similar types of treasury shares; losses on retirement of treasury shares should be offset against existing capital surplus from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

Revenue recognition

The Company's revenues arising from contracts with customers are mainly rendering of processing services and rental of testing machinery. The accounting policies are explained as follows:

A. Rendering of services

The Company's primary activity is to conduct testing and assembly services based on customer's specification demand. According to the customer contract, the ownership of the work in process belongs to the customer. The customer controls the work in process when the Company provides services to create or enhance it. Accordingly, the Company's performance obligation is satisfied over time and the Company, based on the consideration stated in the customer contract (less estimated volume discount), recognizes service revenues over time. The Company estimates the volume discounts using the expected value method based on historical experiences. However,

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revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the expected volume discounts.

The credit period of the Company's service revenue is from 30 to 120 days. For most of the contracts, when the Company transfers those processed assets to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transferring those processed assets to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company transfers those processed assets to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

B. Revenue from rental of machinery

The Company provides rental of testing machineries based on customers' demand. According to the contract, the Company provides tailored machineries to customers for testing purposes for a certain period of time. During the contract period, those machineries are for the contracted customers' use only, and will not be mixed with other testing machineries. Meanwhile, during the contract period, those machineries are still under control of the Company, the customer does not have the right to control over or to direct the right of use of the rented machineries. Usually, the unit rental price is fixed and is stated in the contract. Accordingly, the Company's performance obligations is satisfied over time and the Company recognizes revenues from rental of the machinery by rental hours or testing volume multiplied by the fixed unit price, or over the rental period on a straight line basis.

The credit period of the Company's service revenue is from 30 to 120 days. For most of the contracts, the Company recognizes trade receivables upon the completion of rental period. These trade receivables usually have short period and no significant financial component is arisen.

For some machinery rental contracts, prepayments are received from customers upon signing the contract, the Company then has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

C. Sales of machinery

The Company manufactures and sells professional testing machinery. Those machineries must be tested for specifications according to the contract signed by both parties before being delivered to customers. The Company performs the specification test in accordance with the contract and issues a machinery inspection report to the customer. After the customer confirms that the operating data and function of the machineries have met the specification stated in the inspection report, the machinery can be delivered to the customer's designated location stated in the contract and the control of the machinery can be transferred. At this time, the customer has the right to determine the sales channels and price of those testing machineries, and has the ability to prevent other companies from directing the use and obtaining the benefits of these products. Thus, the Company recognizes the revenue generated from the sales of machineries.

Considering the fact that assisting customers for the machinery installation and providing safety guidance are not significant, so the Company issues an invoice with total consideration to the customer and recognizes the amount as trade receivables upon the delivery of the machinery. In addition, the period between the sales of machinery and the actual receipt of the payment is within one year, therefore, there is no significant financial component. The Company provides its customer with a warranty for refund with the purchase of defectives products. And the warranty is accounted in accordance with IAS 37 as liability provision.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful

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life of the related asset. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Post-employment benefits

All regular employees of KYEC are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with KYEC. Therefore, fund assets are not included in the Company's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

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Share-based payment transactions

The cost of equity-settled transactions between the Company and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognizes unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

A. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for unappropriated earnings is recognized as income tax expense in the subsequent year when distribution proposal is approved by the shareholder's meeting.

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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- a. where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Company acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 "Financial Instruments" either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

A. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

B. Determination the useful lives for plant, property, and equipment

The Company's determination of useful lives is based on the expected utility and the experience on using similar property, plant and equipment in prior periods. Based on the Company's assets management policy, the Company may dispose of certain assets after consuming the economic benefits of the assets to certain extent.

By considering the Company's previous experience as well as peer experience on using similar property, plant and equipment, on March 14, 2019, the Board of Directors approved to change the estimated useful lives of certain machinery equipment from 6 years to 8 years and certain second-handed machinery equipment from 3 years to 4 years effective from January 1, 2019. The change was aimed at reflecting more accurate useful lives, achieving more reasonable cost allocations, and providing more reliable and relevant information. The change of the accounting estimate decreased the depreciation expense by NT\$995,843 thousands for the year ended December 31, 2019. For more information of depreciation, addition and disposal of property, plant and equipment, please refer to Note 6.

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C. Recognition of right-of-use assets and lease liabilities

The Company considers the lease period of the leased assets and the lessee's incremental borrowing interest rate to determine the right-of-use assets and lease liabilities.

To determine the lease period, the Company considers all relevant facts and circumstances that may produce economic incentives to exercise or not to exercise the option to terminate the lease, including expected changes in all facts and conditions from the commencement date of the lease to the exercise date of the option. The main factors to consider include the contract terms and conditions for the period covered by the option and the materiality of the underlying asset to the lessee's operations. When changes of major events or circumstances that are within the control of the Company occur, the lease period is re-evaluated.

In determining a lessee's increment borrowing rate used in discounting lease payments, the Company mainly takes into account the market risk-free rates, the estimated lessee's spread and secured status in a similar economic environment.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$713	\$748
Checking and savings accounts	6,062,897	4,546,559
Time deposits	102,395	239,319
Total	<u>\$6,166,005</u>	<u>\$4,786,626</u>

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

	December 31, 2019	December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss- current Funds	<u>\$-</u>	<u>\$101,461</u>

Financial assets at fair value through profit or loss were not pledged.

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

	December 31, 2019	December 31, 2018
Equity instrument investments measured at fair value through other comprehensive income- current		
Listed company's stocks	\$30,114	\$15,989
Equity instrument investments measured at fair value through other comprehensive income- non-current		
Listed company's stocks	25,009	26,602
Unlisted company's stocks	2,400,157	1,725,878
Subtotal	2,425,166	1,752,480
Total	\$2,455,280	\$1,768,469

The Company received capital returns in the amount of NT\$395 thousand and NT\$8,625 thousand from its equity instrument investments measured at fair value through other comprehensive income for the years ended December 31, 2019 and 2018.

Financial assets at fair value through other comprehensive income were not pledged.

(4) Notes receivable

	December 31, 2019	December 31, 2018
Notes receivables from operating activities	\$4,268	\$13,844
Less: loss allowance	-	-
Total	\$4,268	\$13,844

Notes receivables were not pledged.

The Company adopted IFRS 9 for impairment assessment. Please refer to Note 6 (18) for more details on accumulated impairment. Please refer to Note 12 for more details on credit risk.

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(5) Trade receivables and trade receivables from related parties

	December 31, 2019	December 31, 2018
Trade receivables	\$4,983,364	\$4,446,483
Less: loss allowance	(47,083)	(27,794)
Subtotal	4,936,281	4,418,689
Trade receivables from related parties	911,027	769,731
Less: loss allowance	-	-
Subtotal	911,027	769,731
Total	\$5,847,308	\$5,188,420

No trade receivables were pledged.

The receivables are generally on 30 to 120 days terms. Please refer to Note 6 (18) for more details on loss allowance of trade receivables for the years ended December 31, 2019 and 2018. Please refer to Note 12 for more details on credit risk.

(6) Inventories

	December 31, 2019	December 31, 2018
Raw materials	\$789,707	\$855,661
Work in progress	223,213	210,074
Finished goods	68,115	71,417
Total	\$1,081,035	\$1,137,152

The cost of inventories recognized in operating costs for the years ended December 31, 2019 and 2018 amounted to NT\$18,523,521 thousand and NT\$15,451,671 thousand, respectively, including the write-down of inventories of NT\$15,729 thousand and NT\$114 thousand, and scrap loss of NT\$3,510 thousand and NT\$3,219 thousand, respectively.

No inventories were pledged.

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(7) Prepayments

	December 31, 2019	December 31, 2018
Prepaid equipment	\$125,545	\$413,788
Prepaid expenses	72,472	69,723
Input tax	51,152	135,907
Others	23,438	37,037
Total	<u>\$272,607</u>	<u>\$656,455</u>

(8) Investments accounted for using the equity method

	December 31, 2019		December 31, 2018	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investees				
Fixwell Technology Corp.	\$45,305	23.33%	44,418	23.33%
Wei Jiu Industrial Co., Ltd.	19,923	34.00%	17,934	34.00%
Total	<u>\$65,228</u>		<u>\$62,352</u>	

In April 2018, Dawning Leading Technology Inc. (Dawning) reduced its capital to offset deficits and issued new shares right after. The Company subscribed to the new shares by investing NT\$245,408 thousand and its ownership over Dawning increased to 33.50%. As the subscription is not proportionate to the Company's original ownership, the Company recorded the difference of NT\$33,755 thousand in capital surplus.

For the purpose of integrating resources, enhancing performance, raising competitiveness in response to industry development, the Board of Directors resolved to merge with Dawning on August 7, 2018. After the merger, Dawning was dissolved. The Company paid NT\$3.0 per share to acquire the remaining 66.50% ownership interest. The total consideration paid was NT\$456,982 thousand. The original 33.50% ownership interest was remeasured at fair value and the Company recognized an investment disposal gain of NT\$74,427 thousand.

The merger date was November 1, 2018 and the related registration has been completed. Please refer to Note 6(25) for more details.

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A. Investment in associates

Information on the material associate of the Company:

Company name: Dawning Leading Technology Inc.

The Company recognized the loss of the investment using equity method in the amount of NT\$557,408 thousand for the year ended December 31, 2018.

The Company's investments in Fixwell Technology Corp. and Wei Jiu Industrial Co., Ltd. are not individually material. The aggregated carrying amounts of the Company's interests in Fixwell Technology Corp. and Wei Jiu Industrial Co., Ltd. were NT\$65,228 thousand and NT\$62,352 thousand, respectively, as at December 31, 2019 and 2018. The summarized financial information of the Company's ownership in those associates is as follows:

	Years ended December 31	
	2019	2018
Net income	\$14,336	\$16,031
Other comprehensive income, net of tax	-	-
Total comprehensive income	\$14,336	\$16,031

The investments mentioned above were not pledged.

(9) Property, plant and equipment

	December 31, 2019	December 31, 2018 (Note)
Owner occupied property, plant and equipment	\$36,779,355	
Property, plant and equipment leased out under operating leases	111,532	
Total	\$36,890,887	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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(1) Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land	Buildings and facilities	Plant equipment	Machinery equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2019	\$1,143,394	\$4,700,454	\$8,275,234	\$78,622,911	\$711,410	\$48,856	\$5,114,784	\$4,425	\$677,083	\$99,298,551
Additions	-	-	494,405	7,678,238	27,647	6,081	348,564	-	3,224,561	11,779,496
Disposals	-	-	(55,145)	(2,702,344)	(43,440)	(775)	(127,585)	-	-	(2,929,289)
Transfers	-	20,304	-	2,706,187	1,254	-	55,741	-	(2,361,721)	421,765
Exchange differences	-	(37,820)	(16,859)	(241,911)	(2,805)	(205)	(52,423)	-	(7,655)	(359,678)
As of December 31, 2019	<u>\$1,143,394</u>	<u>\$4,682,938</u>	<u>\$8,697,635</u>	<u>\$86,063,081</u>	<u>\$694,066</u>	<u>\$53,957</u>	<u>\$5,339,081</u>	<u>\$4,425</u>	<u>\$1,532,268</u>	<u>\$108,210,845</u>
Accumulated										
Depreciations and Impairment:										
As of January 1, 2019	\$-	\$1,642,145	\$5,484,142	\$56,133,580	\$589,492	\$32,255	\$3,616,172	\$1,623	\$-	\$67,499,409
Depreciation	-	167,396	514,435	5,833,242	45,693	5,760	365,704	442	-	6,932,672
Disposals	-	-	(55,145)	(2,622,329)	(39,177)	(775)	(123,383)	-	-	(2,840,809)
Transfers	-	43,196	-	4,858	(206)	-	(12,008)	-	-	35,840
Impairment	-	-	-	55,267	-	-	-	-	-	55,267
Exchange differences	-	(17,800)	(11,598)	(185,104)	(2,282)	(175)	(33,930)	-	-	(250,889)
As of December 31, 2019	<u>\$-</u>	<u>\$1,834,937</u>	<u>\$5,931,834</u>	<u>\$59,219,514</u>	<u>\$593,520</u>	<u>\$37,065</u>	<u>\$3,812,555</u>	<u>\$2,065</u>	<u>\$-</u>	<u>\$71,431,490</u>
Net carrying amount as at:										
December 31, 2019	<u>\$1,143,394</u>	<u>\$2,848,001</u>	<u>\$2,765,801</u>	<u>\$26,843,567</u>	<u>\$100,546</u>	<u>\$16,892</u>	<u>\$1,526,526</u>	<u>\$2,360</u>	<u>\$1,532,268</u>	<u>\$36,779,355</u>

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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- (2) Property, plant and equipment leased out under operating leases (applicable under IFRS 16 requirements)

	Buildings and facilities	Machinery equipment	Total
Cost:			
As at January 1, 2019	\$189,678	\$196,421	\$386,099
Additions	-	1,167	1,167
Disposals	-	-	-
Transfers	(40,028)	22,438	(17,590)
Exchange differences	(3,170)	-	(3,170)
As at December 31, 2019	<u>\$146,480</u>	<u>\$220,026</u>	<u>\$366,506</u>
Depreciation and impairment:			
As at January 1, 2019	\$104,911	\$173,034	\$277,945
Depreciation	4,813	9,814	14,627
Disposals	-	-	-
Transfers	(24,206)	(11,634)	(35,840)
Exchange differences	(1,758)	-	(1,758)
As at December 31, 2019	<u>\$83,760</u>	<u>\$171,214</u>	<u>\$254,974</u>
Net carrying amounts as at:			
December 31, 2019	<u>\$62,720</u>	<u>\$48,812</u>	<u>\$111,532</u>

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(3) Property, plant and equipment (prior to the application of IFRS 16)

		Buildings and	Plant	Machinery	Office	Transportation	Miscellaneous	Leasehold	Construction in progress and equipment awaiting examination	Total
	Land	facilities	equipment	equipment	equipment	equipment	equipment	equipment		
Cost:										
As of January 1, 2018	\$1,143,394	\$4,884,238	\$7,258,471	\$71,590,546	\$653,833	\$46,562	\$4,613,080	\$4,425	\$345,729	\$90,540,278
Additions	-	23,661	854,162	7,305,529	48,710	4,119	588,811	-	183,005	9,007,997
Addition- acquired through business combination	-	-	194,802	2,682,988	12,944	-	113,873	-	42,433	3,047,040
Disposals	-	-	(26,253)	(2,707,967)	(2,674)	(1,736)	(93,414)	-	-	(2,832,044)
Transfers	-	-	-	40,426	-	-	(87,014)	-	105,933	59,345
Exchange differences	-	(17,767)	(5,948)	(92,190)	(1,403)	(89)	(20,552)	-	(17)	(137,966)
As of December 31, 2018	<u>\$1,143,394</u>	<u>\$4,890,132</u>	<u>\$8,275,234</u>	<u>\$78,819,332</u>	<u>\$711,410</u>	<u>\$48,856</u>	<u>\$5,114,784</u>	<u>\$4,425</u>	<u>\$677,083</u>	<u>\$99,684,650</u>
Accumulated										
Depreciations and Impairment:										
As of January 1, 2018	\$-	\$1,581,088	\$5,039,910	\$53,246,263	\$555,859	\$28,406	\$3,429,675	\$1,181	\$-	\$63,882,382
Depreciation	-	172,773	474,740	5,703,830	37,433	5,647	291,326	442	-	6,686,191
Disposals	-	-	(26,253)	(2,579,216)	(2,602)	(1,736)	(91,794)	-	-	(2,701,601)
Exchange differences	-	(6,805)	(4,255)	(64,263)	(1,198)	(62)	(13,035)	-	-	(89,618)
As of December 31, 2018	<u>\$-</u>	<u>\$1,747,056</u>	<u>\$5,484,142</u>	<u>\$56,306,614</u>	<u>\$589,492</u>	<u>\$32,255</u>	<u>\$3,616,172</u>	<u>\$1,623</u>	<u>\$-</u>	<u>\$67,777,354</u>
Net carrying amount as at:										
December 31, 2018	<u>\$1,143,394</u>	<u>\$3,143,076</u>	<u>\$2,791,092</u>	<u>\$22,512,718</u>	<u>\$121,918</u>	<u>\$16,601</u>	<u>\$1,498,612</u>	<u>\$2,802</u>	<u>\$677,083</u>	<u>\$31,907,296</u>

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- a. Capitalized borrowing costs of property, plant and equipment are as follows:

	For the years ended December 31,	
	2019	2018
Construction in progress	\$92,113	\$53,795
Capitalization rate of borrowing costs	1.7117~ 5.225%	1.5518~1.8843%

- b. The investing activities partially influenced the cash flow are as follows:

	For the years ended December 31,	
	2019	2018
Acquisition of property, plant and equipment	\$11,780,663	\$9,007,997
Net increase in payables to equipment suppliers	(162,788)	(323,470)
Net decrease (increase) in other payables - related parties	3,720	(3,720)
Total	\$11,621,595	\$8,680,807

	For the years ended December 31,	
	2019	2018
Disposal of property, plant and equipment	\$96,818	\$295,816
Net decrease (increase) in other receivables	24,600	(24,600)
Net decrease (increase) in other receivables - related parties	117	(117)
Total	\$121,535	\$271,099

- c. In order to meet the needs of future operation and development, the Company decided to purchase three lots of land and buildings located in Miaoli County for operational use. The total purchase price was NT \$ 850 million (including tax). As of December 31, 2019, the Company has paid the first installment of NT\$707,976 thousand and recognized the payment in the construction in progress. According to the purchase agreement, ownership transfer registration shall be completed within four months after obtaining the use license.
- d. As of December 31, 2019, the Company recognized an impairment loss of NT\$ 55,267 thousand for certain machinery and equipment which were either damaged or idle and could no longer be used. No such situation occurred in 2018.
- e. Please refer to Note 8 for property, plant and equipment under pledges as collateral.

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(10) Intangible Asset

	Software	Goodwill	Total
Cost:			
As of January 1, 2019	\$332,598	\$35,914	\$368,512
Additions from acquisitions	26,418	-	26,418
Disposals	(30,077)	-	(30,077)
Transfers	-	-	-
Exchange differences	(2,217)	-	(2,217)
As of December 31, 2019	<u>\$326,722</u>	<u>\$35,914</u>	<u>\$362,636</u>
As of January 1, 2018	\$239,151	\$-	\$239,151
Additions from acquisitions	23,774	-	23,774
Acquired through business combination	17,897	35,914	53,811
Disposals	(36,424)	-	(36,424)
Transfers	89,021	-	89,021
Exchange differences	(821)	-	(821)
As of December 31, 2018	<u>\$332,598</u>	<u>\$35,914</u>	<u>\$368,512</u>
Amortization and impairment:			
As of January 1, 2019	\$197,450	\$-	\$197,450
Amortization	87,531	-	87,531
Disposals	(30,077)	-	(30,077)
impairment loss	-	35,914	35,914
Exchange differences	(1,977)	-	(1,977)
As of December 31, 2019	<u>\$252,927</u>	<u>\$35,914</u>	<u>\$288,841</u>
As of January 1, 2018	\$194,236	\$-	\$194,236
Amortization	40,203	-	40,203
Disposals	(36,424)	-	(36,424)
Exchange differences	(565)	-	(565)
As of December 31, 2018	<u>\$197,450</u>	<u>\$-</u>	<u>\$197,450</u>
Net carrying amount as of:			
December 31, 2019	<u>\$73,795</u>	<u>\$-</u>	<u>\$73,795</u>
December 31, 2018	<u>\$135,148</u>	<u>\$35,914</u>	<u>\$171,062</u>

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Amortization expenses of intangible assets recognized are as follows:

	For the years ended December 31,	
	2019	2018
Operating costs	\$66,404	\$20,747
Sales and administration costs	14,543	13,200
Research and development costs	6,584	6,256
Total	\$87,531	\$40,203

a. Please refer to Note 6(25) for more details of goodwill of NT\$35,914 thousand.

b. Please refer to Note 6(12) for goodwill impairment testing.

(11) Other non-current assets

	December 31,	December 31,
	2019	2018
Long-term prepaid rent	\$(NOTE)	\$106,246
Refundable deposits	15,724	15,532
Others	452	108
Total	\$16,176	\$121,886

Note: Long-term prepaid rent was prepaid for land use rights. The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(12) Goodwill impairment testing

The Company acquired Dawning Leading Technology Inc. in November 2018, and recognized goodwill of NT\$35,914 thousand. The goodwill shall be tested for impairment annually. After the acquisition of Dawning Leading Technology Inc., an assembly center was established, and goodwill was allocated to this center (a separate cash-generating unit).

Cash-generating unit of assembly center

As the acquisition date of Dawning Leading Technology Inc. was in November 2018, there is no impairment of goodwill in 2018. However, in 2019, the assembly center suffered an operating loss due mainly to severe competition and the delay in the introduction of new products. The recoverable amount of the assembly center has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 13.60% in 2019. As a result of this analysis, management has recognized an impairment loss of NT\$35,914 thousand on goodwill.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for assembly center is most sensitive to the following assumptions:

- (a) Revenue growth rate applied to cash flow projections.
- (b) Discount rates.

Revenue growth rates –Revenue growth rate is estimated based on market supply and demand and product implementation progress during the budget period.

Discount rates – discount rates reflect the current market assessment of the risks specific to each cash generating unit (including the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted). The discount rate was estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest-bearing loans that the Company has obligation to settle.

(13) Short-term loan

	Interest Rates (%)	December 31, 2019	December 31, 2018
Unsecured bank loans	3.13~4.57%	\$493,383	\$111,879

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The Company's unused short-term lines of credits amounted to NT\$4,200,151 thousand and NT\$3,357,084 thousand as at December 31, 2019 and 2018, respectively.

(14) Long-term borrowings

As of December 31, 2019

<u>Lenders</u>	<u>Nature</u>	<u>Balance</u>	<u>Maturity Date</u>	<u>Terms of repayment</u>
Citi Bank	Unsecured bank loans	\$ 215,250	2021.11.30	Revolving Credit
SinoPac Bank	Unsecured bank loans	539,640	2021.05.22	Revolving Credit
HSBC Taiwan Bank	Unsecured bank loans	1,138,600	2021.10.14	Revolving Credit
Cathay United Bank	Unsecured bank loans	269,820	2021.12.23	Revolving Credit
Bank of china	Unsecured bank loans	749,500	2021.10.14	Revolving Credit
Mizuho Bank	Unsecured bank loans	1,230,000	2021.01.01	Revolving Credit
Hua Nan Commercial Bank	Unsecured bank loans	299,800	2021.05.10	Revolving Credit
E. Sun Bank	Unsecured bank loans	239,840	2021.09.10	Revolving Credit
Shin Kong Commercial Bank	Unsecured bank loans	449,700	2021.01.03	Revolving Credit
Mega Bank	Unsecured bank loans	749,500	2021.09.18	Revolving Credit
Land Bank	Unsecured bank loans	269,820	2021.03.28	Revolving Credit
Mega Bank	Unsecured bank loans	319,500	2021.02.12	Repay at maturity
Land Bank	Unsecured bank loans	126,000	2021.02.12	Repay at maturity
Fubon Bank	Unsecured bank loans	175,500	2021.02.09	Repay at maturity
Bank of Taiwan	Unsecured bank loans	479,497	2021.02.12	Repay at maturity
Land Bank and 13 others	Secured bank loans	3,750,000	2021.03.10	25% of principal will be repaid on the day of three and half years after March 10, 2016. The remaining principal will be repaid on maturity day.

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Lenders	Nature	Balance	Maturity Date	Terms of repayment
Mega Bank and 17 others	Commercial Paper	5,680,000	2023.12.06	Revolving credit. Renewable every three months. Credit has not been fully utilized.
Mega Bank and 17 others	Secured bank loans	300,000	2023.12.06	25% of principal will be repaid on the day of three and half years after August 13, 2019. The remaining principal will be repaid on maturity day.
Bank of Taiwan and 6 others (King Long)	Secured bank loans	1,262,196	2024.02.01	Repayable in 6 semi-annual instalments from August 01, 2021.
Shanghai Commercial & Savings Bank (King Long)	Unsecured bank loans	299,707	2022.05.23	Repayable in 4 semi-annual instalments from December 5, 2020.
Taishin Bank (King Long)	Unsecured bank loans	299,707	2022.05.29	Repayable in 4 semi-annual instalments from December 5, 2020.
Bank of Taiwan (King Long)	Unsecured bank loans	449,560	2022.07.17	Repayable in 7 quarterly instalments from January 17, 2021.
Shin Kong Commercial Bank (King Long)	Unsecured bank loans	299,707	2022.07.17	Repayable in 3 semi-annual instalments from July 17, 2021.
Yuanta Commercial Bank (King Long)	Unsecured bank loans	29,971	2022.08.12	Repayable in 6 quarterly instalments from May 30, 2021.
O Bank (King Long)	Unsecured bank loans	149,853	2022.10.10	Repayable in 6 semi-annual instalments from April 29, 2020.
E. Sun Bank (King Long)	Unsecured bank loans	59,941	2022.10.11	Repayable in 4 semi-annual instalments from April 30, 2021.
Fubon Bank (King Long)	Unsecured bank loans	29,971	2022.11.27	After paying US\$160 thousand on May 28, 2021, repayable in 6 quarterly instalments.
Taiwan Cooperative Bank (King Long)	Unsecured bank loans	59,941	2022.12.16	Repayable in 7 quarterly instalments from June 16, 2021.
O Bank (Zhengkuan)	Unsecured bank loans	29,971	2020.03.27	After paying US\$1 million on April 07, 2018, repayable in 4 semi-annual instalments, except for the last payment which is due in 5 months.

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<u>Lenders</u>	<u>Nature</u>	<u>Balance</u>	<u>Maturity Date</u>	<u>Terms of repayment</u>
HSBC Bank (Zhengkuan)	Unsecured bank loans	89,912	2021.04.09	Repayable in 5 semi-annual instalments, except for the last payment which is due in 5 months from April 27, 2019.
KGI Bank (Zhengkuan)	Unsecured bank loans	239,766	2021.11.08	Repayable in 5 semi-annual instalments, except for the last payment which is due in 3 months from January 26, 2020
Shanghai Commercial & Savings Bank (Zhengkuan)	Unsecured bank loans	89,912	2022.11.08	Repayable in 5 semi-annual instalments from November 8, 2020.
Subtotal		<u>20,372,082</u>		
Less: current portion		(403,605)		
Less: Arrangement fee		(37,035)		
Less: Unamortized discount		<u>(7,002)</u>		
Total		<u><u>\$19,924,440</u></u>		
Interest Rates		<u><u>0.83%~5.23%</u></u>		

As of December 31, 2018

<u>Lenders</u>	<u>Nature</u>	<u>Balance</u>	<u>Maturity Date</u>	<u>Terms of repayment</u>
Y Standard Chartered Bank	Unsecured bank loans	\$ 600,000	2020.06.30	Revolving Credit
Citi Bank	Unsecured bank loans	460,725	2020.11.30	Revolving Credit
SinoPac Bank	Unsecured bank loans	614,300	2020.05.31	Revolving Credit
Taiwan Business Bank	Unsecured bank loans	276,435	2020.02.26	Revolving Credit
HSBC Taiwan Bank	Unsecured bank loans	1,660,020	2020.10.17	Revolving Credit
Taishin Bank	Unsecured bank loans	289,000	2021.02.09	Revolving Credit
Cathay United Bank	Unsecured bank loans	276,435	2020.12.24	Revolving Credit
First Commercial Bank	Unsecured bank loans	337,865	2020.06.28	Revolving Credit
Bank of China	Unsecured bank loans	300,000	2020.10.14	Revolving Credit

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Lenders	Nature	Balance	Maturity Date	Terms of repayment
	loans			
Mizuho Bank	Unsecured bank	1,230,000	2021.01.01	Revolving Credit
	loans			
Hua Nan Commercial Bank	Unsecured bank	92,145	2020.11.16	Revolving Credit
	loans			
E. Sun Bank	Unsecured bank	92,145	2020.09.13	Revolving Credit
	loans			
Shin Kong Commercial Bank	Unsecured bank	61,430	2021.01.03	Revolving Credit
	loans			
Mega Bank	Unsecured bank	491,440	2020.09.18	Revolving Credit
	loans			
Land Bank	Unsecured bank	92,145	2020.02.12	Revolving Credit
	loans			
O Bank	Unsecured bank	300,000	2020.11.21	Repay at maturity
	loans			
Mega Bank	Unsecured bank	639,000	2021.02.12	Repay at maturity
	loans			
Land Bank	Unsecured bank	252,000	2021.02.12	Repay at maturity
	loans			
Chang Hwa Commercial Bank	Unsecured bank	263,250	2021.02.09	Repay at maturity
	loans			
E. Sun Bank	Unsecured bank	259,000	2021.02.09	Repay at maturity
	loans			
Fubon Bank	Unsecured bank	351,000	2021.02.09	Repay at maturity
	loans			
Bank of Taiwan	Unsecured bank	958,994	2021.02.12	Repay at maturity
	loans			
Fubon Bank and 9 others	Secured bank	530,000	2020.09.10	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan is repayable in 6 semi-annual instalments from March 10, 2018.
	loans			
Land Bank and 13 others	Secured bank	3,750,000	2021.03.10	25% of principal will be repaid on the day of three and half years after March 10, 2016. The remaining principal will be repaid on maturity day.
	loans			
Mega Bank and 17 others	Commercial	2,500,000	2023.12.06	Revolving credit. Renewable

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Lenders	Nature	Balance	Maturity Date	Terms of repayment
	Paper			every three months. Credit has not been fully utilized.
Taishin Bank (Zhengkuan)	Unsecured bank loans	61,428	2019.08.09	Repayable in 5 semi-annual instalments from September 19, 2017, except for the last payment which is due in 5 months.
O Bank (Zhengkuan)	Unsecured bank loans	92,142	2020.03.27	After paying US\$1million on April 7, 2018, repayable in 4 semi-annual instalments, except for the last payment which is due in 5 months.
HSBC Bank (Zhengkuan)	Unsecured bank loans	153,570	2021.04.09	Repayable in 5 semi-annual instalments from April 27, 2019, except for the last payment which is due in 5 months.
Subtotal		16,984,469		
Less: current portion		(184,284)		
Less: Arrangement fee		(43,675)		
Less: Unamortized discount		(5,650)		
Total		\$16,750,860		
Interest Rates		0.81%~3.79%		

a. Certain property, plant and equipment were pledged. Please refer to Note 8 for more details.

b. Please refer to Note 9 for the financial covenants during the loan period.

(15) Post-employment benefits

Defined contribution plan

The Company adopted a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. The Company has made monthly contribution of 6% of each individual employee's salaries or wages to employee's pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employee's salaries or wages to the employee's individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan for the years ended December 31, 2019 and 2018 were NT\$288,659 thousand and NT\$239,631 thousand, respectively.

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$17,986 thousand to its defined benefit plan during the 12 months beginning after December 31, 2019.

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The maturities of the defined benefits plan as at December 31, 2019 and 2018 are both in 2025.

Pension costs recognized in profit or loss for the years ended December 31, 2019 and 2018

	For the years ended December 31,	
	2019	2018
Current period service costs	\$5,991	\$6,176
Interest income or expense	4,527	4,958
Overestimate	21	(43)
Total	<u>\$10,539</u>	<u>\$11,091</u>

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	December 31,	
	2019	2018
Defined benefit obligation at January 1,	\$802,898	\$752,629
Plan assets at fair value	<u>(274,729)</u>	<u>(271,059)</u>
Other non-current liabilities - accrued pension liabilities recognized on the consolidated balance sheets	<u>\$528,169</u>	<u>\$481,570</u>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As at January 1, 2018	\$704,482	\$(257,858)	\$446,624
Current period service costs	6,176	-	6,176
Net interest expense (income)	7,820	(2,862)	4,958
Subtotal	718,478	(260,720)	457,758
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	31,817	-	31,817
Actuarial gains and losses arising from changes in financial assumptions	7,076	-	7,076
Experience adjustments	10,482	-	10,482
Return on plan assets	-	(7,587)	(7,587)
Subtotal	<u>49,375</u>	<u>(7,587)</u>	<u>41,788</u>
Payments from the plan	(15,224)	15,224	-
Contributions by employer	-	(17,976)	(17,976)
As at December 31, 2018	<u>\$752,629</u>	<u>\$(271,059)</u>	<u>\$481,570</u>

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Current period service costs	5,991	-	5,991
Net interest expense (income)	<u>7,074</u>	<u>(2,547)</u>	<u>4,527</u>
Subtotal	765,694	(273,606)	492,088
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	55,146	-	55,146
Actuarial gains and losses arising from changes in financial assumptions	(38,952)	-	(38,952)
Experience adjustments	51,181	-	51,181
Return on plan assets	<u>-</u>	<u>(9,850)</u>	<u>(9,850)</u>
Subtotal	67,375	(9,850)	57,525
Payments from the plan	(30,171)	30,171	-
Contributions by employer	<u>-</u>	<u>(21,444)</u>	<u>(21,444)</u>
As at December 31, 2019	<u>\$802,898</u>	<u>\$(274,729)</u>	<u>\$528,169</u>

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate	0.80%	0.94%
Expected rate of salary increases	1.50%	1.50%

A sensitivity analysis for significant assumption as at December 31, 2019 and 2018 is shown as below:

	<u>Effect on the defined benefit obligation</u>			
	<u>2019</u>		<u>2018</u>	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increase by 0.5%	\$-	\$(45,058)	\$-	\$(20,657)
Discount rate decrease by 0.5%	76,608	-	42,681	-
Future salary increase by 0.5%	75,659	-	41,901	-
Future salary decrease by 0.5%	-	(45,031)	-	(20,645)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

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There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(16) Equity

A. Share capital

As of December 31, 2019 and 2018, KYEC's authorized share capital was both NT\$15,000,000 thousand; issued share capital was both NT\$12,227,451 thousand (1,222,745 thousand shares), with par value of NT\$10 per share. Each share has one voting right and a right to receive dividends.

The Company issued overseas unsecured convertible bonds (the KYEC Bonds) on July 29, 2016. For the year 2018, the KYEC Bonds conversation amount was US\$2,050 thousand, which was converted into 2,507 thousand shares of the Company's common shares, and the Company issued 1,039 thousand shares and 1,468 thousand shares for capital increase on March 16, 2018 and May 4, 2018, respectively. As of December 31, 2019 and 2018, the capital surplus-convertible bonds option amount was both NT\$ 0. The KYEC Bonds have been fully converted as of March 31, 2018.

B. Capital surplus

	December 31, 2019	December 31, 2018
Additional paid-in capital	\$823,017	\$823,017
Arising from conversion of bonds	3,588,848	3,588,848
Treasury share transactions	390,101	390,101
Arising from the exercise of employee restricted shares	30,755	30,756
Long-term equity investment	-	11,814
Total	<u>\$4,832,721</u>	<u>\$4,844,536</u>

According to the Company Act, the capital surplus shall not be used except for offset the deficit of the Company. When a Company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the par value of share capital and donations. The distribution could be made in cash to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policy

According to KYEC's Articles of Incorporation, net profits for each fiscal year, if any, shall be distributed in following order:

- a. Reserve for tax payments;
- b. Offset prior year's losses;
- c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
- d. Set aside or reverse special reserve in accordance with law and regulations; and
- e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholder's meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning, etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. As the Company currently is still in the growth stage, funding may be required in the near future for expansion. Therefore, the current policy is to distribute cash dividends at no less than 20% of total dividends to be distributed.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

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On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the Company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity" for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of December 31, 2019 and 2018, special reserve set aside for the first-time adoption of TIFRS amounted to NT\$201,416 thousand.

The appropriations for earnings for 2018 were resolved by the shareholders in its meeting on June 6, 2019; while the proposed appropriations of earnings for 2019 were approved by Board of Directors on March 13, 2020. The appropriations and dividends per share were as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$297,658	\$179,534		
Special reserve	(400,766)	371,933		
Cash dividends-common stock	1,956,392	1,650,706	\$1.60	\$1.35
Total	<u>\$1,853,284</u>	<u>\$2,202,173</u>		

Based on the distribution proposal submitted by Board of Directors on March 13, 2020, KYEC will reduce the capital surplus from share premium by NT\$244,549 thousand to distribute cash dividends.

Please refer to Note 6(20) for information regarding the employees' compensations (bonuses) and remunerations to directors.

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D. Non-controlling interests

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$42,741	\$5,658
Net loss attributable to non-controlling interests	(82)	(1,454)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(52)	300
Increase (decrease) attributable to non-controlling interests	(36,092)	38,237
Ending balance	<u>\$6,515</u>	<u>\$42,741</u>

(17) Operating revenue

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Assembly and testing processing revenue	\$23,778,126	\$19,701,773
Revenue from rental of machinery	1,148,449	602,285
Rental income from property	24,288	114,710
Other operating revenues	588,574	396,601
Total revenue	<u>\$25,539,437</u>	<u>\$20,815,369</u>

Relevant information of revenue from contracts with customers for the years ended December 31, 2019 and 2018 are as follows:

A. Disaggregation of revenue

		<u>For the years ended December 31,</u>	
<u>Nature of revenue</u>	<u>Timing of revenue recognition</u>	<u>2019</u>	<u>2018</u>
Rendering of services	Over time	\$23,778,126	\$19,701,773
Revenue from rental of machinery	Over time	1,148,449	602,285
Rental income from property	On a straight-line basis or on a systematic basis (Note)	24,288	114,710
Other operating revenues	At a point in time	588,574	396,601
Total		<u>\$25,539,437</u>	<u>\$20,815,369</u>

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Note: Please refer to Note 6(19) for information regarding leases.

B. Contract balances

(a).Contract assets – current

Nature of revenue	December 31, 2019	December 31, 2018	January 1, 2018
Rendering of services	\$126,182	\$289,427	\$256,510

The significant changes in the Company's balances of contract assets during the years ended December 31, 2019 and 2018 are as follows:

	For the years ended December 31,	
	2019	2018
The opening balance transferred to trade receivables	\$288,359	\$256,510
Degree of completion measurement	\$125,114	\$289,427

(b).Contract liabilities - current

Nature of revenue	December 31, 2019	December 31, 2018	January 1, 2018
Revenue from rental of machinery	\$52,486	\$84,834	\$46,161
Assembly and testing processing revenue	14,428	44,240	45,380
Other operating revenues	1,416	1,129	467
Total	\$68,330	\$130,203	\$92,008

The difference of the beginning and ending balances is the net effect of the various revenue contracts signed before the opening date and the assumption of the new performance obligations for new contracts signed as of the ending date.

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(18) Expected credit losses

Operating expenses - expected credit losses/ (gains)

	For the years ended December 31	
	2019	2018
contract assets	\$-	\$-
Notes receivable	-	-
Trade receivables	20,609	2,971
Total	<u>\$20,609</u>	<u>\$2,971</u>

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its contract assets and receivables (including notes receivable and trade receivables) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at December 31, 2019 and 2018 are as follows:

- A. The gross carrying amount of contract assets is NT\$126,182 thousand and NT\$289,427 thousand, respectively, that is measured at expected credit loss ratio of 0%.
- B. The Company considers the grouping of trade receivables by counterparties' credit ratings, geographical regions and industry sectors. Loss allowance is measured by using a provision matrix. Details are as follows:

As at December 31, 2019

Group 1	Not yet due (Note)	Overdue				Total
		1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$5,574,530	\$266,482	\$14,275	\$18,228	\$2,385	\$5,875,900
Loss ratio	-%	-%	1%	2%	5%	
Lifetime expected credit losses	(23,697)	-	(143)	(365)	(119)	(24,324)
Subtotal	5,550,833	266,482	14,132	17,863	2,266	5,851,576

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Group 2	Not yet due (Note)	Overdue				Total
		1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$233	\$-	\$186	\$8,803	\$13,537	\$22,759
Loss ratio	100%	-%	-%	-%	100%	
Lifetime expected credit losses	(233)	-	(186)	(8,803)	(13,537)	(22,759)
Subtotal	-	-	-	-	-	-
Total						<u>\$5,851,576</u>

As at December 31, 2018

Group 1	Not yet due (Note)	Overdue				Total
		1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$4,720,506	\$399,003	\$22,950	\$67,445	\$3,815	\$5,213,719
Loss ratio	-%	-%	1%	2%	5%	
Lifetime expected credit losses	(9,685)	-	(230)	(1,349)	(191)	(11,455)
Subtotal	4,710,821	399,003	22,720	66,096	3,624	5,202,264

Group 2	Not yet due (Note)	Overdue				Total
		1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$500	\$-	\$-	\$-	\$15,839	\$16,339
Loss ratio	100%	-%	-%	-%	100%	
Lifetime expected credit losses	(500)	-	-	-	(15,839)	(16,339)
Subtotal	-	-	-	-	-	-
Total						<u>\$5,202,264</u>

Note: The Company's notes receivable are not overdue.

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The movement in the provision for impairment of contract assets, notes receivable, and trade receivables for the years ended December 31, 2019 and 2018 is as follows:

	Contract assets	Notes receivable	Trade receivables
Beginning balance at January 1, 2019	\$	\$-	\$27,794
Addition for the current period	-	-	20,609
Write off (Note)	-	-	(1,299)
Effect of changes in exchange rate	-	-	(21)
Ending balance	\$-	\$-	\$47,083
Beginning balance at January 1, 2018 (in accordance with IAS 39)	\$-	\$-	\$28,207
Beginning balance at January 1, 2018 (in accordance with IFRS 9)	-	-	28,207
Addition for the current period	-	-	2,971
Write off (Note)	-	-	(3,300)
Effect of changes in exchange rate	-	-	(84)
Ending balance	\$-	\$-	\$27,794

Note: Although the Company wrote off the financial assets during 2019 and 2018, collection activities are still underway.

(19) Leases

(1) The Company as a lessee (applicable to disclosure requirement under IFRS 16)

The Company leases land and buildings with lease terms ranging from 6 to 58 years. At the end of the lease terms, the Company does not have the purchase option to acquire the leasehold land and buildings.

The Company leases machinery and equipment for operational use with terms of 1 year. The Company has purchase options to acquire leasehold machinery and equipment at the end of the lease terms.

The effect that leases have on the financial position, financial performance and cash flows of the Company are as follows:

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A. Amounts recognized in the balance sheet

(a) Right-of-use assets

The carrying amount of right-of-use assets

	December 31, 2019	December 31, 2018 (Note)
Land	\$553,922	
Buildings	45,314	
Machinery and equipment	774,671	
Total	<u>\$1,373,907</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

During the year ended December 31, 2019, the Company's additions to right-of-use assets amounted to NT\$774,671.

(b) Lease liabilities

	December 31, 2019	December 31, 2018 (Note)
Lease liabilities- current	\$792,980	
Lease liabilities- non-current	485,263	
Total	<u>\$1,278,243</u>	

Please refer to Note 6 (21)C for the interest on lease liabilities recognized during the year ended December 31, 2019 and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as at December 31, 2019.

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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B. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	For the years ended December 31,	
	2019	2018 (Note)
Land	\$19,354	
Buildings	5,266	
Machinery and equipment	-	
Total	<u>\$24,620</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C. Income and costs relating to leasing activities

	For the years ended December 31,	
	2019	2018 (Note)
The expenses relating to short-term leases	\$54,176	
The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets)	3,300	
Total	<u>\$57,476</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

D. Cash outflows relating to leasing activities

During the year ended December 31, 2019, the Company's total cash outflows for leases amounted to NT\$85,499 thousand.

E. Other information relating to leasing activities

Extension and termination options

Some of the Company's property rental agreements contain extension and termination options. In determining the lease terms, the non-cancellable period for which the Company has the right to use an underlying asset, together with periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably

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certain not to exercise that option. These options are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company.

After the commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

(2) Operating lease commitments-the Company as lessee (applicable to the disclosure requirement in IAS 17)

The Company leases several parcels of land from the ROC government which expire in December 2033. The lease agreements granted the Company the option to renew the leases and reserve the right for the lessor to adjust the lease payments upon an increase in the assessed value of the land and to terminate the lease under certain conditions. Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2019 (Note)	December 31, 2018
Not later than one year		\$21,821
Later than one year and not later than five years		87,286
Later than five years		191,663
Total		<u>\$300,770</u>

Operating lease expenses recognized are as follows:

	For the years ended December 31
	2019 (Note) 2018
Minimum lease payments	<u>\$21,821</u>

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(3) The Company as a lessor (applicable to the disclosure requirement under IFRS 16)

The Company entered into commercial property leases with remaining terms between one to two years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018 (Note)</u>
Lease income for operating leases		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate	<u>\$24,288</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

Please refer to Note 6 (9) for relevant disclosure of property, plant and equipment for operating leases under IFRS 16. For operating leases entered by the Company, the undiscounted lease payments to be received and a total of the amounts for the remaining years as at December 31, 2019 are as follow:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018 (Note)</u>
Not later than one year	\$7,915	
Later than one year and not later than five years	<u>187</u>	
Total	<u>\$8,102</u>	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

- (4) Operating lease commitments - the Company as lessor (applicable to the disclosure requirement in IAS 17)

The Company entered into commercial property leases with remaining terms between one to two years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2019 (Note)</u>	<u>2018</u>
Not later than one year		\$3,342
Later than one year and not later than five years		<u>1,749</u>
Total		<u>\$5,091</u>

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Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(20) Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2019 and 2018:

	For the years ended December 31,					
	2019			2018		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$4,352,574	\$1,159,150	\$5,511,724	\$3,659,158	\$999,239	\$4,658,397
Labor and health insurance	380,837	75,846	456,683	325,957	69,185	395,142
Pension	232,212	66,986	299,198	193,227	57,495	250,722
Remuneration of directors	-	33,391	33,391	-	20,611	20,611
Other employee benefits expense	236,951	41,006	277,957	194,070	34,415	228,485
Total	\$5,202,574	\$1,376,379	\$6,578,953	\$4,372,412	\$1,180,945	\$5,553,357
Depreciation	\$6,389,127	\$582,792	\$6,971,919	\$6,125,494	\$560,697	\$6,686,191
Amortization	\$66,404	\$21,127	\$87,531	\$20,747	\$19,456	\$40,203

In accordance with the Articles of Incorporation, 8% to 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors. However, KYEC's accumulated losses shall have been covered (if any). KYEC may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current period, KYEC estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2019 to be 8% of profit of current period (or NT\$333,915 thousand) and 0.8% of profit of current period (or NT\$33,391 thousand), respectively, which were recognized as salary expense. If the Board of Directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed is calculated based on the closing price one day prior

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to the date of resolution. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the difference will be recognized in the profit or loss in the subsequent year. A resolution was passed at a Board of Directors meeting held on March 13, 2020 to distribute NT\$333,915 thousand and NT\$33,391 thousand in cash as employees' compensation and remuneration to directors, respectively, which were consistent with the estimated amounts recognized for the year ended December 31, 2019.

Actual distribution of employees' compensation and remuneration to directors of 2018 amounted to NT\$206,105 thousand and NT\$20,611 thousand, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors for the year ended 31 December 2018.

(21) Non-operating income and expenses

A. Other income

	For the years ended December 31,	
	2019	2018
Interest income	\$12,617	\$22,217
Dividend income	38,398	880
Government grant	57,469	27,918
Others	79,649	40,265
Total	<u>\$188,133</u>	<u>\$91,280</u>

B. Other gains and losses

	For the years ended December 31,	
	2019	2018
Gains on disposal of property, plant and equipment	\$8,338	\$165,812
Gains on disposal of investments	-	74,427
Foreign exchange gains, net	59,506	87,777
Gains on financial assets at fair value through profit or loss (Note)	424	418
Impairment losses – Property, plant and equipment	(55,267)	-
Impairment losses – Goodwill	(35,914)	-
Others	1,966	(3,473)
Total	<u>\$(20,947)</u>	<u>\$324,961</u>

Note: Balance in current year was arising from financial assets mandatorily measured at fair value through profit or loss.

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C. Finance costs

	For the years ended December 31,	
	2019	2018
Interest expenses on borrowings from bank	\$301,836	\$205,318
Amortization on bonds payable	-	(331)
Interest on lease liabilities	9,837	(Note)
Total	\$311,673	\$204,987

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(22) Components of other comprehensive income

For the year ended December 31, 2019

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(57,525)	\$-	\$(57,525)	\$-	\$(57,525)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	687,601	(395)	687,206	(136,555)	550,651
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(186,914)	-	(186,914)	37,373	(149,541)
Total of other comprehensive income	\$443,162	\$(395)	\$(442,767)	\$(99,182)	\$343,585

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For the year ended December 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(41,788)	\$-	\$(41,788)	\$-	\$(41,788)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(194,614)	30,203	(164,411)	17,118	(147,293)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(81,443)	-	(81,443)	24,851	(56,592)
Total of other comprehensive income	<u>\$(317,845)</u>	<u>\$30,203</u>	<u>\$(287,642)</u>	<u>\$41,969</u>	<u>\$(245,673)</u>

(23) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

	For the years ended December 31,	
	2019	2018
Current income tax expense:		
Current income tax charge	\$757,124	\$616,594
Adjustments in respect of current income tax of prior periods	-	8,589
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	116,255	29,411
Deferred tax expense (income) relating to changes in tax rate or the imposition of new taxes	-	(58,926)
Income tax expense recognized in profit or loss	<u>\$873,379</u>	<u>\$595,668</u>

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Income tax relating to components of other comprehensive income

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Deferred tax expense (income):		
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	\$136,555	\$(17,118)
Exchange differences resulting from translating the financial statements of a foreign operation	<u>(37,373)</u>	<u>(24,851)</u>
Income tax relating to components of other comprehensive income	<u>\$99,182</u>	<u>\$(41,969)</u>

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	<u>For the years ended Dec. 31,</u>	
	<u>2019</u>	<u>2018</u>
Accounting profit before tax from continuing operations	<u>\$3,914,863</u>	<u>\$2,389,558</u>
Tax at the domestic rates applicable to profits in the country concerned	\$782,973	\$477,912
Corporate income surtax on undistributed retained earnings	-	16,574
Tax effect of expenses not deductible for tax purposes	(105,732)	91,934
Tax effect of deferred tax assets/liabilities	116,255	29,411
Different tax rates application between the parent company and subsidiaries	79,883	30,174
Adjustments in respect of current income tax of prior periods	-	8,589
Deferred tax income relating to changes in tax rate or imposition of new taxes	<u>-</u>	<u>(58,926)</u>
Total income tax expense recognized in profit or loss	<u>\$873,379</u>	<u>\$595,668</u>

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Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2019

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized exchange gains and losses	\$495	\$(6,119)	\$-	\$-	\$-	\$(5,624)
Impairment loss of goodwill	12,650	-	-	-	-	12,650
Other impairment loss	-	11,054	-	-	-	11,054
Depreciation difference for tax purpose	16,426	7,793	-	-	-	24,219
Unrealized sales discount	6,666	1,150	-	-	-	7,816
Investments accounted for using the equity method	158,590	(129,439)	-	-	-	29,151
Exchange differences resulting from translating the financial statements of foreign operations	73,031	-	37,373	-	-	110,404
Unrealized investment gains and losses	104,007	(1,749)	(136,555)	-	-	(34,297)
Others	10,485	1,055	-	-	-	11,540
Unused tax losses	23,048	-	-	-	-	23,048
Deferred tax income/ (expense)		<u>\$(116,255)</u>	<u>\$(99,182)</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets/(liabilities)	<u>\$405,398</u>					<u>\$189,961</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$405,398</u>					<u>\$229,882</u>
Deferred tax liabilities	<u>\$-</u>					<u>\$39,921</u>

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For the year ended December 31, 2018

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized exchange gains and losses	\$ (7,812)	\$ 8,307	\$ -	\$ -	\$ -	\$ 495
Impairment loss of goodwill	12,650	-	-	-	-	12,650
Depreciation difference for tax purpose	13,141	3,285	-	-	-	16,426
Unrealized sales discount	3,916	2,750	-	-	-	6,666
Investments accounted for using the equity method	156,482	2,108	-	-	-	158,590
Exchange differences resulting from translating the financial statements of foreign operations	48,180	-	24,851	-	-	73,031
Unrealized investment gains and losses	71,976	14,913	17,118	-	-	104,007
Others	9,017	1,468	-	-	-	10,485
Unused tax losses	26,364	(3,316)	-	-	-	23,048
Deferred tax income/ (expense)		<u>\$ 29,515</u>	<u>\$ 41,969</u>	<u>\$ -</u>	<u>\$ -</u>	
Net deferred tax assets/(liabilities)	<u>\$ 333,914</u>					<u>\$ 405,398</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$ 333,914</u>					<u>\$ 405,398</u>
Deferred tax liabilities	<u>\$ -</u>					<u>\$ -</u>

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The following table contains information of the unused tax losses of the Company:

Entities	Year	Tax losses for the period	Unused tax losses as at		Expiration year
			December 31, 2019	December 31, 2018	
KYEC	2009	\$372,867	\$115,242	\$115,242	2019
Foreign Subsidiaries	2014	122,294	-	122,294	2019
	2015	133,282	133,282	138,837	2020
	2016	40,119	40,119	41,791	2021
	2017	31,941	31,941	33,273	2022
	2018	74,692	74,692	-	2023
			<u>\$395,276</u>	<u>\$451,437</u>	

Unrecognized deferred tax assets

As of December 31, 2019 and 2018, deferred tax assets that have not been recognized amounted to NT\$76,354 thousand and NT\$84,049 thousand, respectively.

Unrecognized deferred tax liabilities relating to the investments in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As at December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, aggregated to NT\$1,585 thousand and NT\$1,500 thousand, respectively.

The assessment of income tax returns

As of December 31, 2019, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

Entities	The assessment of income tax returns
KYEC	Assessed and approved up to 2017
Subsidiary:	
King Long Technology (Suzhou) Ltd.	Filed up to 2018
Suzhou Zhengkuan Technology Ltd.	Filed up to 2018
KYEC USA Corp.	Filed up to 2018
KYEC Japan K.K.	Filed up to 2018
KYEC SINGAPORE PTE. Ltd.	Filed up to 2018
King Ding Precision Incorporated Company	Filed up to 2018 but not yet approved

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Based on the amendments to the Income Tax Act announced, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%. The deferred tax assets will increase NT\$58,926 thousand when income tax rate changed.

(24) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended December 31,	
	2019	2018
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent	\$3,041,566	\$1,795,344
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand share)	1,222,745	1,222,296
Basic earnings per share (NT\$)	\$2.49	\$1.47
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent	\$3,041,566	\$1,795,344
Interest expense from convertible bonds	-	(266)
Profit attributable to ordinary equity owners of the parent after dilution	\$3,041,566	\$1,795,078
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	1,222,745	1,222,296
Effect of dilution:		
Employee compensation — stock (in thousands)	10,499	10,576
Convertible bonds (in thousands)	-	-

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	For the years ended December 31,	
	2019	2018
Weighted average number of ordinary shares outstanding after dilution (in thousands)	1,233,244	1,232,872
Diluted earnings per share (NT\$)	\$2.47	\$1.46

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were issued.

(25) Business combinations

The merger with Dawning Leading Technology Inc. (“Dawning”)

On November 1, 2018, for the purposes of integrating resources, enhancing performance, raising competitiveness in response to industrial development, the Company acquired, in stages, the 100% ownership interest of Dawning. Dawning was originally accounted for as investment using the equity method.

The fair values of the identifiable assets and liabilities of Dawning as of the acquisition date were:

	Fair values recognized on the acquisition date
Assets	
Cash and cash equivalents	\$247,538
Accounts receivable (including trad receivables from related parties)	657,356
Inventory	426,604
Property, plant and equipment	3,047,040
Long-term investments	53,694
Intangible assets	17,897
Others	155,764
Subtotal	4,605,893
Liabilities	
Bank loans	(2,834,445)
Accounts payable	(540,135)
Others	(580,069)
Subtotal	(3,954,649)
Fair value of identifiable net assets	\$651,244

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Goodwill of Dawning is as follows:	Amount
Acquisition consideration:	
Fair value of equity interest in Dawning originally held by the Company	\$230,176
Paid in cash to acquire remaining interests	456,982
Less: identifiable net assets at fair value	(651,244)
Goodwill	\$35,914
Cash flows on acquisition:	Amount
Transaction costs attributable to cash paid	\$(456,982)
Net cash acquired from the subsidiary	247,538
Net cash flow out on acquisition	\$(209,444)

As some shareholders of Dawning has claimed objections against the merger transaction relating to the acquisition price of NT\$3.0 per share, the Company has calculated and lodged the redemption price of NT\$52,585 thousand with the Taipei District Court for court ruling on the redemption price. Please also refer to Note 9 for the discussion of the court ruling. The abovementioned cash transaction cost of NT\$456,982 thousand included the calculated redemption price of NT\$52,585 thousand.

The identifiable assets recognized in the financial statements as of December 31, 2018 were based on a provisional assessment for fair value as of March 14, 2019. There could be adjustments on the assessment upon finalizing the valuation report.

The valuation report on the fair value of net assets was completed on March 18, 2019. The difference between the final valuation report and the provisional assessment is not significant.

The goodwill of NT\$35,914 thousand comprises the value of expected synergies arising from the acquisition and a customer list. The customer list is not considered separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38 "Intangible Assets".

From the acquisition date to December 31, 2018, Dawning has contributed NT\$460,491 thousand of revenue and NT\$(32,663) thousand of the net loss before tax to the Company. If the combination had taken place at the beginning of the year, revenue and net income of the Company for the year ended December 31, 2018 would have been NT\$22,844,011 thousand and NT\$1,189,600 thousand, respectively.

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The merger with King Ding Precision Incorporated Company (“King Ding”)

The Company acquired 48.94% shares and more than half seats of the Board of Directors of King Ding in a cash consideration of NT\$35,530 thousand in November 2018. The Company, therefore, obtained the control over King Ding.

The primary business of King Ding is manufacturing, selling and wholesale of electronics parts and components and repairing of electronic related products. The company’s location is No. 118, Zhonghua Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.).

The fair values of the identifiable assets and liabilities of King Ding as of the acquisition date were:

	Fair values recognized on the acquisition date
Assets	
Cash and cash equivalents	\$77,965
Trade receivables	7,441
Inventory	27,600
Others	1,952
Subtotal	\$114,958
Liabilities	
Accounts payable	(40,110)
Others	(1,081)
Subtotal	(41,191)
Fair value of identifiable net assets	\$73,767

Goodwill of King Ding is as follows:

	Amount
Cash consideration	\$35,530
Non-controlling interest	38,237
Less: identifiable net assets at fair value	(73,767)
Goodwill	\$-

Cash flows on acquisition:

	Amount
Transaction costs attributable to cash paid	\$(35,530)
Net cash acquired from the subsidiary	77,965
Net cash flow in on acquisition	\$42,435

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From the acquisition date to December 31, 2018, King Ding has contributed NT\$0 thousand of revenue and NT\$(3,062) thousand of the net loss before tax to the Company. If the combination had taken place at the beginning of the year, revenue and net income of the Company for the year ended December 31, 2018 would have been NT\$20,832,323 thousand and NT\$2,392,613 thousand, respectively.

(26) Changes in the ownership interest of subsidiaries

Based on the long-term development and operation, the Company acquired 51.06% shares in King Ding in a cash consideration of NT\$37,070 thousand in January 2019, which increased the ownership to 100%. This transaction has no impact on the control of the subsidiary. Changes in equity are treated as equity transactions.

7. Related Party Transactions

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

A. Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
MediaTek Inc.	The chairman of the Company and the chairman of MediaTek Inc. are close relatives
Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.
Airoha Technology Corp.	Subsidiary of MediaTek Inc.
Other related parties (Note 1)	Subsidiary of MediaTek Inc.
Dawning (Note 2)	Associates
Fixwell Technology Corp.	Associates
Wei Jiu Industrial Co., Ltd.	Associates

Note 1: The Company's transactions with these companies are not material.

Note 2: The related party transactions disclosed herein include only those transactions occurred before the date of merger (November 1, 2018).

B. Significant transactions with related parties

(a). Sales

	For the years ended December 31,	
	2019	2018
MediaTek Inc.	\$1,967,302	\$1,745,267
Mediatek Singapore Pte. Ltd.	940,418	1,096,420
Other related parties	342,566	346,913
Associates	15,929	67,209
Total	<u>\$3,266,215</u>	<u>\$3,255,809</u>

The sales price to related parties was determined through mutual agreement based on the market demands. The trade credit terms for related parties were 45 to 90 days, while the terms for non-related parties were 30 to 120 days. The outstanding balance due from related parties as of December 31, 2019 and 2018 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

- (b). The Company purchased inventories from associates. For the years ended December 31, 2019 and 2018, the purchase amounts were NT\$51,369 thousand and NT\$52,506 thousand, respectively. The purchase price was based on the market demands. The payment terms with related parties were 30 days, while the terms with non-related parties were 30 to 120 days.
- (c). The Company appointed an associate to perform machinery repairs. For the years ended December 31, 2019 and 2018, the operating costs recognized amounted to NT\$312,790 thousand and NT\$207,911 thousand, respectively.
- (d). The Company paid rental expenses for renting machines from associates. For the years ended December 2019 and 2018, the rental expenses amounted to NT\$0 thousand and NT\$7,114 thousand, respectively. The rental price was based on the similar machine's rental price in the market. The payment terms with related parties were 30 to 90 days, while terms with non-related parties were 0 to 30 days.

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(e). Significant property transactions with related parties:

i. Disposal of property, plant and equipment

	For the year ended December 31,2019		For the year ended December 31,2018	
	Disposal		Disposal	
Related party	Sales price	gain	Sales price	gain
Associates	\$9,423	\$5,028	\$4,824	\$3,581

The Company deferred the disposal gain derived from sales of property, plant and equipment to related parties, and then recognized such gain over depreciable lives of the disposed assets.

ii. Acquisition of property, plant and equipment

	For the year ended December 31,2019	For the year ended December 31,2018
Related party	Purchase price	Purchase price
Associates	\$106,826	\$530,915

The purchase price was determined through mutual agreement based on the market demand.

(f). Contract assets

Contract assets - current

	December 31,2019	December 31,2018
Other related parties		
MediaTek Inc.	\$1,293	\$3,189
Mediatek Singapore Pte. Ltd.	500	4,050
Others	-	125
Total	1,793	7,364
Less: loss allowance	-	-
Net	\$1,793	\$7,364

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(g). Trade receivables from related parties

	December 31, 2019	December 31, 2018
MediaTek Inc.	\$478,587	\$424,764
Mediatek Singapore Pte. Ltd.	320,837	274,233
Other related parties	111,400	70,308
Associates	203	426
Less: loss allowance	-	-
Net	\$911,027	\$769,731

(h). Other receivables from related parties

	December 31, 2019	December 31, 2018
MediaTek Inc.	\$6,235	\$4,681
Mediatek Singapore Pte. Ltd.	1,551	4,569
Other related parties	170	115
Associates	-	1,972
Net	\$7,956	\$11,337

(i). Contract liabilities

	December 31, 2019	December 31, 2018
MediaTek Inc.	\$192	\$-
Others related parties	-	529
Total	\$192	\$529

(j). Account payables to related parties

	December 31, 2019	December 31, 2018
Wei Jiu Industrial Co., Ltd.	\$30,713	\$12,391

(k). Other payables to related parties

	December 31, 2019	December 31, 2018
Fixwell Technology Corp.	\$62,269	\$46,918
Wei Jiu Industrial Co., Ltd.	27,712	33,073
Other related parties	1,067	840
Total	\$91,048	\$80,831

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(l). Other income

	For the years ended December 31,	
	2019	2018
Associate	\$-	\$2,750

(m). Key management personnel compensation

	For the years ended December 31,	
	2019	2018
Short-term employee benefits	\$145,025	\$114,945
Post-employment benefits	1,652	1,864
Total	\$146,677	\$116,809

8. Assets Pledged as Security

The following table lists assets of the Company pledged as security:

Items	Carrying amount		Purpose of pledge
	December 31, 2019	December 31, 2018	
Other current financial assets	\$4	\$4	L/C guarantee deposits
Other non-current financial assets	113,125	109,912	Customs clearance
Land	914,594	1,143,394	Long-term borrowings
Building and facility	3,026,451	2,040,259	Long-term borrowings
Machinery equipment	1,877,506	2,095,813	Long-term borrowings
Total	\$5,931,680	\$5,389,382	

9. Significant Contingent Liabilities and Unrecognized Commitments

As of December 31, 2019, the following contingencies and material commitments were not included in the Company's consolidated financial statements:

- A. The Company's issued and outstanding letters of credit is approximately NT\$200,212 thousand.

- B. To construct the plant and factory premises, the Company had entered into several construction contracts in an aggregate amount of NT\$1,590,614 thousand with NT\$1,196,067 thousand already paid and NT\$394,547 thousand remaining unpaid (promissory notes have been issued).
- C. The promissory notes issued for secured bank loans amounted to NT\$37,110,390 thousand.
- D. The Company also provided guarantees to Suzhou Zhengkuan Technology Ltd.'s lines of credit. The lines of credit were provided by KGI Bank, Taishin International Bank, O-Bank, HSBC Taiwan Bank, The Shanghai Commercial & Savings Bank, SinoPac Bank Commercial Bank, E.SUN Commercial Bank in Dongguan branch, Bank of Taiwan in Shanghai branch and SinoPac Bank Commercial Bank in Shanghai branch in the amount of US\$8,000 thousand, US\$5,000 thousand, US\$5,000 thousand, US\$5,000 thousand, US\$5,000 thousand, US\$5,000 thousand, CNY\$30,000 thousand, CNY\$30,000 thousand and CNY25,000 thousand, respectively.
- E. The Company entered into a syndicated loan agreement with 13 banks, led by Land Bank of Taiwan, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2016 to 2021:
 - (a) Current ratio not less than 100%;
 - (b) Debt ratio not more than 130%;
 - (c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2016 to 2021, Land Bank of Taiwan may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

The Company entered into a syndicated loan agreement with 17 banks, led by Mega International Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2018 to 2023:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 130%;
- (c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2018 to 2023, Mega International Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

The subsidiary of King Long Technology (Suzhou) Ltd. entered into a syndicated loan agreement with 6 banks, led by Bank of Taiwan in Shanghai branch, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2019 to 2024:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 120%;
- (c) Interest coverage ratio not less than 100%;
- (d) equity not less than CNY 800 million.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2019 to 2024, Bank of Taiwan in Shanghai branch may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

As of December 31, 2019, the Company did not violate any financial covenants.

- F. As some shareholders of Dawning has claimed objections against the merger transaction with Dawning relating to the acquisition price of NT\$3.0 per share, the Company has calculated and lodged the redemption price of NT\$52,585 thousand with the Taipei District Court for court ruling on the redemption price on November 20, 2018. The case is still being tried by the Hsinchu District Court.

10. Losses due to Major Disasters

None.

11. Significant Subsequent Events

None.

12. Others**(1) Financial instruments****A. Categories of financial instruments**

	December 31, 2019	December 31, 2018
<u>Financial assets</u>		
Financial assets at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	\$-	\$101,461
Financial assets at fair value through other comprehensive income	2,455,280	1,768,469
Financial assets measured at amortized cost (Note 1)	12,431,811	10,358,486
Total	<u>\$14,887,091</u>	<u>\$12,228,416</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Short-term borrowings	\$493,383	\$111,879
Payables (including related parties)	1,087,309	1,246,312
Other payables (including related parties)	4,028,162	3,157,728
Long-term loans (including current portion)	20,328,045	16,935,144
Lease liabilities	1,278,243	(Note 2)
Guarantee deposits	1,933	1,573
Total	<u>\$27,217,075</u>	<u>\$21,452,636</u>

Note:

1. Includes cash and cash equivalents, notes receivable, trade receivables (including related parties), other receivables (including related parties), other financial assets and refundable deposits.
2. The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(2) Financial risk management objectives

The objective of the Company's financial risk management is mainly to manage the market risk, credit risk and liquidity risk derived from its operating activities. The Company identified, measured and managed the aforementioned risks based on the Company's policy and risk tendency.

The Company has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by Board of Directors and Audit committee in accordance with relevant regulations and internal controls. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

A. Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign operations.

Some receivables and payables are denominated in the same foreign currency, and it will result in economic hedging effect. Further, net investments in foreign operations are primary for strategic purposes, and they are not hedged by the Company.

The Company's sensitivity analysis to foreign currency risk mainly focuses on foreign currency monetary items at the end of the reporting period. The Company's foreign currency risk is mainly from the volatility in the exchange rates of US\$ and CNY. The sensitivity analysis is as follows:

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When NT\$ appreciates or depreciates against US\$ by 1%, the profit for the years ended December 31, 2019 and 2018 would have increased / decreased by NT\$28,332 thousand and NT\$ 3,109 thousand, respectively.

When NT\$ appreciates or depreciates against CNY by 1%, the profit for the years ended December 31, 2019 and 2018 would have decreased/increased by NT\$4,325 thousand and NT\$6,372 thousand, respectively.

B. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Company manages its risk by having a balanced portfolio of financial instruments with fixed and floating interest rate. The Company did not apply hedging accounting since such hedging activities did not qualify for criteria of hedge accounting.

The Company's sensitivity analysis to interest rate risk mainly focuses on items exposed to interest rate risk at the end of the reporting period, including investments with floating interest rates and bank borrowings with floating rates. Assuming investments and bank borrowings had been outstanding for the entire period and all other variables were constant, a hypothetical increase/decrease of 10 basis points of interest rate in a reporting period would have resulted in a decrease/increase in profit by NT\$20,865 thousand and NT\$17,096 thousand for the years ended December 31, 2019 and 2018, respectively.

C. Equity price risk

The Company's equity investments, including listed and unlisted equity securities, are exposed to market price risk arising from uncertainties of future values of equity securities. The Company's investments in listed and unlisted equity securities are classified under financial assets at fair value through other comprehensive income. The Company manages the equity price risk through diversification and placing limits on individual and total equity investments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain significant equity investments according to level of authority.

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At the reporting date ended December 31, 2019 and 2018, a change of 20% in the price of the listed equity securities classified under equity instrument investments measured at fair value through other comprehensive income would have impact of NT\$11,025 thousand and NT\$8,518 thousand on the equity attributable to the Company.

Please refer to Note 12(8) for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables and notes receivable) and from its financing activities (including bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2019 and 2018, receivables from top ten customers represented 47% and 35% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

The Company manages its exposure to credit risk arising from bank deposits, fixed income securities and other financial instruments in accordance with established group policies. Since the counter-parties are selected reputable financial institutions and companies, the Company believes its exposure to credit risk is not significant.

(5) Liquidity risk management

The Company maintained financial flexibility through the holding of cash and cash equivalents, investment in securities with high liquidity, facilities of bank borrowings and issuance of convertible bonds. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity, and the payment amount also includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

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Non-derivative financial instruments

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Longer than 4 years	Total
<u>December 31, 2019</u>						
Payables	\$5,115,471	\$-	\$-	\$-	\$-	\$5,115,471
Borrowings	1,237,454	12,533,040	2,699,613	5,066,370	218,854	21,755,331
Lease liabilities (Note)	792,980	18,654	19,005	19,363	428,241	1,278,243

December 31, 2018

Payables	\$4,404,040	\$-	\$-	\$-	\$-	\$4,404,040
Borrowings	541,688	6,456,001	8,202,133	31,315	2,531,315	17,762,452

Notes: Information about the maturities of lease liabilities is provided in the table below:

	Maturities				Total
	Less than 1 year	1 to 5 years	6 to 10 years	>10 years	
Lease liabilities	\$792,980	\$76,728	\$97,410	\$311,125	\$1,278,243

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for year ended December 31, 2019:

	Short-term borrowings	Long-term loans	Lease liabilities	Total liabilities from financing activities
As of January 1, 2019	\$111,879	\$16,935,144	\$-	\$17,047,023
Beginning adjustments			522,423	522,423
Cash flows	402,919	3,591,313	(28,023)	3,966,209
Non-cash changes				
Syndicated loan issuance costs	-	14,771	-	14,771
Amortization on commercial paper	-	(1,351)	-	(1,351)
Additions to right-of-use assets	-	-	774,671	774,671
Interest on lease liabilities amortization	-	-	9,837	9,837
Lease liabilities revaluation adjustments	-	-	135	135
Foreign exchange movement	(21,415)	(211,832)	(800)	(234,047)
As of December 31, 2019	<u>\$493,383</u>	<u>\$20,328,045</u>	<u>\$1,278,243</u>	<u>\$22,099,671</u>

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Reconciliation of liabilities for year ended December 31, 2018:

	Short-term borrowings	Long-term loans	Bonds payable	Total liabilities from financing activities
As of January 1, 2018	\$-	\$11,939,678	\$64,829	\$12,004,507
Cash flows	(302,510)	2,499,654	-	2,197,144
Non-cash changes				
The exercise of conversion rights	-	-	(64,498)	(64,498)
Loans from acquisition transactions	413,652	2,420,793	-	2,834,445
Syndicated loan issuance costs and amortization on bonds payable	-	3,370	(331)	3,039
Foreign exchange movement	737	71,649	-	72,386
As of December 31, 2018	<u>\$111,879</u>	<u>\$16,935,144</u>	<u>\$-</u>	<u>\$17,047,023</u>

(7) Fair values of financial instruments

- A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

- The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and other payables approximate their fair value due to their short maturities.
- For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price at the reporting date.

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

- c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- d. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument.

B. Fair value of financial instruments measured at amortized cost

The carrying amounts of the Company's financial assets and financial liabilities measured at amortized cost approximate their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Company.

(8) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Input other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets measured at fair value on a non-recurring basis; the following table presents the fair value measurement hierarchy of the Company's assets and liabilities on a recurring basis:

December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through other comprehensive income				
Equity instruments measured at fair value through other comprehensive income	\$55,123	\$-	\$2,400,157	\$2,455,280

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value:				
Financial assets at fair value through profit or loss- Fund	\$101,461	\$-	\$-	\$101,461
Financial assets at fair value through other comprehensive income				
Equity instruments measured at fair value through other comprehensive income	\$25,149	\$17,442	\$1,725,878	\$1,768,469

Transfers between Level 1 and Level 2 during the period

The transfer between Level 1 and Level 2 during 2019 was because of the expiry of lock-up period of the related investments. There was no such transfer during 2018.

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

For the year ended December 31, 2019:

	Assets
	At fair value through other comprehensive income
	Stocks
Beginning balances as at January 1, 2019	\$1,725,878
Liquidation return of surplus value	(395)
Total gains and losses recognized for the year ended December 31, 2019:	
Amount recognized in OCI (presented in “unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	674,279
Reversal of liquidation loss recognized in retain earnings	395
Ending balances as at December 31, 2019	<u>\$2,400,157</u>

For the year ended December 31, 2018:

	Assets
	At fair value through other comprehensive income
	Stocks
Beginning balances as at January 1, 2018	\$1,844,859
Acquired through business combination	45,711
Capital reduction	(8,625)
Total gains and losses recognized for the year ended December 31, 2018:	
Amount recognized in OCI (presented in “unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	(152,035)
Liquidation loss recognized in retain earnings	(4,032)
Ending balances as at December 31, 2018	<u>\$1,725,878</u>

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KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As at December 31, 2019

Financial assets:	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets at fair value through other comprehensive income					
Stocks	Assets Approach	Discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$265,575 thousand.
Stocks	Markets Approach	P/E, P/B, EV/EBITDA, EV/EBIT and EV/Sales	30%	The higher the proportion of similar quantified information, the higher the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$1,426 thousand.

As at December 31, 2018

Financial assets:	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets at fair value through other comprehensive income					
Stocks	Assets Approach	Discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$188,374 thousand.

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(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

Stocks	Markets Approach	P/E, P/B, EV/EBITDA, EV/EBIT and EV/Sales	30%	The higher the proportion of similar quantified information, the higher the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$4,359 thousand
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Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's Finance Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date.

(9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	December 31, 2019		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Monetary financial assets</u>			
US\$	\$156,508	29.98	\$4,692,104
CNY	666,207	4.305	2,868,019
JPY	466,659	0.276	128,798
<u>Monetary financial liabilities</u>			
US\$	251,010	29.98	7,525,289
CNY	565,735	4.305	2,435,488
JPY	311,606	0.276	86,003

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

	December 31, 2018		
	Foreign Currency (thousand)	Exchange rate	NT\$ (thousand)
<u>Monetary financial assets</u>			
US\$	\$146,451	30.715	\$4,498,246
CNY	247,725	4.472	1,107,824
JPY	690,739	0.2782	192,163
<u>Monetary financial liabilities</u>			
US\$	156,573	30.715	4,809,125
CNY	105,246	4.472	470,662
JPY	601,990	0.2782	167,474

The Company has various functional currencies, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gains were NT\$59,506 thousand and NT\$87,777 thousand for the years ended December 31, 2019 and 2018, respectively.

(10) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Additional Disclosures

(1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau for the year ended December 31, 2019:

- A. Financing provided to others: None.
- B. Endorsement/Guarantee provided to others: Please refer to Attachment 1.
- C. Securities held as of December 31, 2019: Please refer to Attachment 2.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

of NT\$300 million or 20 percent of the capital stock: Please refer to Attachment 3.

E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock: Please refer to Attachment 4.

F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock: None.

G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock: Please refer to Attachment 5.

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock: Please refer to Attachment 6.

I. Financial instruments and derivative transactions: None.

J. Parent-subsidary relationship between business dealings and important circumstances: Please refer to Attachment 7.

(2) Information on investees

Information regarding investee companies over which the Company can exercise significant influence or control: Please refer to Attachment 8.

(3) Investment in Mainland China: Please refer to Attachment 7 and Attachment 9.

14. Segment Information

A. General information

The main revenue stream of the Company comes from testing and assembly services. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.

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KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

B. Regional information

(a). From external customer revenue:

	For the years ended December 31,	
	2019	2018
Taiwan	\$6,615,790	\$5,879,479
Asia	13,433,065	10,593,912
North America	4,925,101	3,765,475
Others	565,481	576,503
Total	<u>\$25,539,437</u>	<u>\$20,815,369</u>

(b). Non-current assets information is as follows:

	Dec. 31, 2019	Dec. 31, 2017
Taiwan	\$31,678,654	\$28,483,829
Asia	6,236,691	3,700,422
Others	28,715	353
Total	<u>\$37,944,060</u>	<u>\$32,184,604</u>

(c). Important customer information

For the years ended December 31, 2019 and 2018, no individual external customer's revenue exceeds 10% of the Company's consolidated revenues.

ENDORSEMENTS/GUARANTEES PROVIDED

For the year ended December 31, 2019

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)

NO.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 3)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
1	KYES	King Long Technology (Suzhou) Ltd.	(Note1)	\$5,238,388	\$160,160	\$-	\$-	-	0.00%	\$10,476,776	Y	N	Y
2		Suzhou Zhengkuan Technology Ltd.	(Note1)		\$1,452,080	\$1,355,265	\$464,125	-	5.17%		Y	N	Y

Note1: A subsidiary in which endorser/guarantor holds directly over 50% of equity interest.

Note2: The amount of guarantees/endorsements for any single entity shall not exceed 20% of net worth of endorser/guarantor.

Note3: The maximum endorsement/guarantee amount allowable shall not exceed 40% of the Company's net worth as of December 31, 2019.

MARKTEABLE SECURITIES HELD

As of December 31, 2019

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)

Held Company Name	Securities Type	Securities Name	Relationship with the Company	Financial Statement Account	Balances as of December 31, 2019				Note
					Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
KYEC	Stock	ADL Engineering INC.	-	Non-current financial assets at fair value through other comprehensive income	210,614	\$-	1.76%	\$-	
	Stock	Shieh Yong Investment Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	57,810,000	516,835	7.58%	516,835	
	Stock	APM Communication, Inc.	-	Non-current financial assets at fair value through other comprehensive income	10,456	-	0.11%	-	
	Stock	Greenliant Systems, Ltd.	-	Non-current financial assets at fair value through other comprehensive income	2,333,333	-	2.74%	-	
	Stock	YANN YUAN Investment Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	25,000,000	1,873,338	16.78%	1,873,338	
	Stock	Mcube Inc.	-	Non-current financial assets at fair value through other comprehensive income	528,745	-	0.97%	-	
	Stock	Unimicron Technology Corporation	-	Current financial assets at fair value through other comprehensive income	717,000	30,114	0.05%	30,114	
	Stock	IROC Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	436,046	13,670	1.23%	13,670	
	Stock	Subtron Technology Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	927,147	11,339	0.32%	11,339	
	Stock	CAL-COMP INDÚSTRIA DE SEMICONDUCTORES S.A.	-	Non-current financial assets at fair value through other comprehensive income	11,965,500	9,984	17.16%	9,984	

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

INDIVIDUAL SECURITIES ACQUIRED OR DISPOSED OF WHICH ACCUMULATED AMOUNT EXCEEDING THE LOWER OF NT\$300 MILLION OR 20% OF THE CAPITAL

As of December 31, 2019

Attachment 3

(Amounted in New Taiwan Thousand Dollars and CNY in Thousand , Unless Specified otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counter-party	Relationship	Beginning Balance		Acquisition		Disposal		Ending Balance	
					Units/Shares	Amounts	Units/Shares	Amounts	Units/Shares	Amounts	Units/Shares	Amounts
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Investments accounted for using the equity method	(Note1)	Subsidiary	-	\$-	-	CNY\$86,015	-	\$-	-	CNY\$89,499

Note1 : Sino-Tech Investment Co., Ltd. and Strong Outlook Investments Ltd. °

Note2 : The amount includes investment income (loss) recognized by using the equity method.

ACQUISITION OF INDIVIDUAL REAL ESTATE WITH AMOUNT EXCEEDING THE LOWER OF NT\$300 MILLION OR 20% OF THE CAPITAL STOCK

As of December 31, 2019

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)

Held Company Name	Type of Properties	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Usage of Acquisition	Other Commitments
							Owner	Relationship with the Issuer	Transfer Date	Amount			
KYEC	Land and building	2019.2.1	\$850,000	Prepaid \$707,976	Henghou Xingye Co., Ltd.	None	Not applicable				Valuation report and real estate sale and purchase agreement	Purpose: to meet the needs of future operation and development Using status: ownership not transferred	

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

As of December 31, 2019

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable (Included Contract Assets)	
			Purchase/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
KYES	MediaTek Inc.	The chairman of the Company and the chairman of Mediatek Inc. are close relatives	Sales	\$1,852,957	8.48%	Month-end 75 days	Note	Month-end 30 to 120 days	\$451,276	9.51 %
	Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	Sales	\$913,779	4.18%	Month-end 60 days		Month-end 30 to 120 days	\$310,965	6.55 %
	Airoha Technology Corporation	Subsidiary of MediaTek Inc.	Sales	\$270,431	1.24%	Month-end 60 days		Month-end 30 to 120 days	\$90,465	1.91 %
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Subsidiary	Sales	\$113,763	4.34%	Month-end 90 days		Month-end 60 to 90 days	\$79,283	7.68 %

Note: Comparable to regular customers.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

As of December 31, 2019

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rates	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
KYECC	MediaTek Inc.	The chairman of the Company and the chairman of Mediatek Inc. are close relatives	\$457,511 (Note 1)	4.26	\$1	-	\$277,032	-
	Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	\$312,516 (Note 2)	3.14	\$133	-	\$194,534	-
	King Long Technology (Suzhou) Ltd.	Subsidiary	\$802,048 (Note 3)	3.22	\$-		\$170,967	-
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Subsidiary	\$132,224 (Note 4)	1.55	\$92,669	-	\$15,902	-

Note 1 : Includes other receivables - related party amounting to NT\$6,235 thousand arising from handling charges, freights and tax fees.

Note 2 : Includes other receivables - related party amounting to NT\$1,551 thousand arising from customs clearance charges and freights.

Note 3 : Includes other receivables - related party amounting to NT\$786,490 thousand arising from disposing equipments and accessories.

Note 4 : Includes other receivables - related party amounting to NT\$52,941 thousand arising from utility fees.

INTERCOMPANY RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS INTER-COMPANY TRANSACTIONS DURING THE REPORTING PERIOD

For the year ended December 31, 2019

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)

(Amounted in New Taiwan Thousand Dollars, Unless Specified otherwise)							
Number	Company name	Counterparty	Relationship				
				Finacial Statement account	Amount (Foreign Currency in Thousands)	Transaction terms	% of Net revenues or total assets
0	KYES	KYES USA Corp.	1	Commission expense	\$56,150	As stipulated by contracts	0.22%
		Accrued expenses		6,596	0.01%		
		King Long Technology (Suzhou) Ltd.		Disposal of equipments	596,056		1.08%
				Purchase on equipments	129,595		0.24%
				Accounts receivable	15,558		0.03%
				Other receivables	786,490		1.43%
				Sales revenue	25,894		0.10%
				Other income	7,510		0.03%
				Deferred credits	118,747		0.22%
				KYES Japan. K.K.	Accrued expenses		3,065
		Commission expense			23,490		0.09%
		KYES Singapore PTE. LTD.		Commission expense	38,518		0.15%
		King Ding Precision Incorporated Company		Disposal of equipments	15,800		0.03%
				Purchase on equipments	17,100		0.03%
				Other receivables	16,590		0.03%
				Accrued expenses	17,955		0.03%
		Suzhou Zhengkuan Technology Ltd.		Endorsement Guarantee	464,125 (US\$15,000) (CNY 3,351)		- - -
				Disposal of equipments	18,277		0.03%
				Other receivables	10,158		0.02%
				Sales revenue	9,869		0.04%
				Purchase	1,810		0.01%
				Deferred credits	2,348		-
1	King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	3	Sales revenue	113,763		0.45%
				Accounts receivable	79,283		0.14%
				Other receivables	52,941		0.10%

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

(1) Number 0 represents the Company.

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

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

(1) The Company to the consolidated subsidiary.

(2) The consolidated subsidiary to the Company.

(3) The consolidated subsidiary to another consolidated subsidiary.

Note 3: In calculating the ratio, the transaction amount is divided by consolidated total assets for balance sheet accounts and is divided by consolidated total revenues for income statement accounts.

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEE OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)

For the year ended December 31, 2019

Amount in New Taiwan Thousand Dollars and United States Thousand Dollars, Unless Specified otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2019			Net Income (Loss) of the Investee	Profits/Losses of Investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of Ownership	Carrying Value			
KYES	KYES USA Corp.	Note 1	Sales agent and business communication in USA	\$4,973	\$4,973	160,000	100.00 %	\$11,732	\$584	\$584	
	KYES Investment International Co., Ltd.	Note 2	Investing activities	5,292,315	5,665,371	164,923,636	100.00 %	4,518,785	601,106	601,106	
	KYES Technology Management Co., Ltd.	Note 3	Investing activities	251,579	251,579	7,500,000	100.00 %	287,967	38,990	38,990	
	KYES Japan. K.K.	Note 4	Manufacturing and sales of Electronic parts and components, sales agent and business communication in Japan	102,735	102,735	1,899	89.83 %	52,497	(711)	(639)	
	KYES SINGAPORE PTE. LTD.	Note 5	Sales agent and business communication in Southeast Asia and Europe	1,830	1,830	78,000	100.00 %	2,024	1,254	1,254	
	Fixwell Technology Corp.	Note 6	Manufacturing, selling and wholesale of electronics parts and components and repairing of electronics related products	28,000	28,000	2,800,000	23.33 %	45,305	39,506	9,287	
	Wei Jiu Industrial Co., Ltd.	Note 7	CNC center processing machine, lathe machining processing design and various precision mechanical components manufacturing	10,200	10,200	1,020,000	34.00 %	19,923	14,849	5,049	
	King Ding Precision Incorporated Company	Note 8	Manufacturing, selling and wholesale of electronics parts and components and repairing of electronics related products	72,600	35,530	6,600,000	100.00 %	74,055	3,921	3,931	
KYES Investment International Co., Ltd.	KYES Microelectronics Co., Ltd.	Note 9	Investing activities	USD 116,155	USD 116,155	118,000,000	94.02 %	USD 150,727	USD 21,175	-	
	Sino-Tech Investment Co., Ltd.	Note 3	Investing activities	USD 32,431	USD 40,000	32,431,235	100.00 %	USD -	(USD 239)	-	
	Strong Outlook Investments Ltd.	Note 2	Investing activities	USD 16,338	USD 21,000	30,337,400	100.00 %	USD -	(USD 148)	-	
KYES Technology Management Co., Ltd.	KYES Microelectronics Co., Ltd.	Note 9	Investing activities	USD 7,500	USD 7,500	7,500,000	5.98 %	USD 9,605	USD 21,175	-	

Note 1 : 101 Meto Drive., #540 San Jose, CA 95110 USA.

Note 2 : Wickhams Cay II Road Town, Tortola, VG1110, British Virgin Islands.

Note 3 : Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa.

Note 4 : 5F 2-3-8 Momochihama, Sawara-ku, Fukuoka 814-0001 Japan.

Note 5 : 750A Chai Chee Road Unit 07-22 Technopark @Chai Chee, Singapore 469001.

Note 6 : No.380, Huashan Rd., Dadu Dist., Taichung City 432, Taiwan (R.O.C.)

Note 7 : No.8, Aly. 8, Ln. 48, Sec. 2, Nan'ai Rd., Xiangshan Dist., Hsinchu City 300, Taiwan (R.O.C.)

Note 8 : No. 118, Zhonghua Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)

Note 9 : P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

INFORMATION ON INVESTMENT IN MAINLAND CHINA

For the year ended December 31, 2019

Amount in New Taiwan Thousand Dollars and United States Thousand Dollars, Unless Specified otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 5)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
King Long Technology (Suzhou) Ltd.	Note 1	\$544,677 (USD 18,168)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	\$3,707,177 (USD 123,655)	\$-	\$-	\$3,707,177 (USD 123,655)	\$652,000 USD 21,175	100%	\$652,000 USD 21,175	\$4,806,753 USD 160,332	\$-
Suzhou Zhengkuan Technology Ltd.	Note 3	\$2,291,334 (CNY 533,348)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	\$1,828,780 (USD 61,000)	\$-	\$366,696 (USD 12,231)	\$1,462,084 (USD 48,769)	\$36,157 USD 1,159	100%	\$36,157 (USD 1,159)	\$384,499 USD 12,825	\$-

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$5,169,261 (USD 172,424)	\$5,169,261 (USD 172,424)	\$15,715,164

Note 1: Sales and manufacturing of components of automotive data processing machinery, solid memory parts, monitoring burn-in machinery, and testing and assembly service of integrated circuits.

Note 2: The Company obtained the approval from the Investment Commission, MOEA, to invest indirectly in King Long Technology (Suzhou) via KYEC Microelectronics Co., Ltd. which is registered in Cayman Island. KYEC Microelectronics Co., Ltd. is invested by KYEC Investment International Co., Ltd. which is registered in BVI.

Note 3: Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, components of automotive data processing machinery, solid memory parts, and monitoring burn-in machinery.

Note 4: The Company obtained the approval from the Investment Commission, MOEA, to invest indirectly in ZhengKun Technology Ltd. (Suzhou) via Sino-tech Investment Co., Ltd. which is registered in Samoa. Sino-tech Investment Co., Ltd. is invested by KYEC Investment International Co., Ltd. which is registered in BVI. For the purpose of reorganization, the ownership of Suzhou Zhengkuan Technology Ltd. was transferred to King Long Technology (Suzhou) Ltd. in March, 2019.

Note 5: Recognition of investment gains (losses) was calculated based on the investee's audited financial statements.